INFORMATION ANALYSIS INC
Form 10-K
March 31, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2009**

¨ **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** | **54-1167364** |
| **State or other jurisdiction of incorporation or organization** | **(I.R.S. Employer Identification No.)** |
| **11240 Waples Mill Road, Suite 201, Fairfax, Virginia** | **22030** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code (703) 383-3000**

**Securities registered pursuant to Section 12(b) of the Act: None**

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

**Common Stock, par value $0.01 per share**

**(Title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ¨ Yes x No

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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. x

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 ¨ (Do not check if a smaller reporting company) | Smaller reporting company x |

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. $883,187 as of June 30, 2009

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. 11,196,760 shares Common Stock, $0.01 par value, as of March 30, 2010

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2010 Annual Meeting of Stockholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference in Part III of this Form 10-K.

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**Information Analysis Incorporated** 2009 Annual Report on Form 10-K

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### Cautionary Statement Regarding Forward-Looking Statements

This Form 10-K 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 here in our Form 10-K and in other filings with the Securities and Exchange Commission. These risks include, among others, the following:

- 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;
- changes in the way the US government contracts with businesses and changes in the budgetary priorities;
- non-performance by our subcontractors and suppliers;
- terms specific to US government contracts;
- our failure to adequately integrate businesses we may acquire;
- fluctuations in our results of operations and its impact on our stock price;

In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, expect, plans, anticipat 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. 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.

## PART I

### Item 1. Business.

***Overview of Market***

Founded in 1979, Information Analysis Incorporated, which we sometimes refer to as IAI, is in the business of modernizing client information systems, developing and maintaining information technology systems, and performing consulting services to government and commercial organizations. Since its inception, we have performed software development and conversion projects for over 100 commercial and government customers including Computer Sciences Corporation, IBM, Computer Associates, MCI, Sprint, Citibank, U.S. Department of Homeland

Security, U.S. Treasury Department, U.S. Department of Agriculture, 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 federal government.

The migration and modernization market is complex and diverse as to the multiple requirements clients possess to upgrade their older systems. Many large legacy systems remain in use because of the enormous cost to re-engineer these systems. Currently, the options available to modernize these systems are many. Performance and capacity of client server systems, both UNIX and .NET, rival the traditional mainframe systems. There are many brands of software that can interface with legacy systems via PC interfaces. New software development languages also allow users to warehouse and data-mine information from legacy databases. Finally, the evolution of the Internet and intranet technology offer a different approach for collecting and processing large volumes of user transactions, processes which are the forte of older legacy systems. All of these options are very expensive and time consuming because they require starting all over in defining requirements, designing structures, programming, and testing. Costs can range as high as $10 or more per line of new code.

Companies are being driven for various reasons to address the upgrading of their legacy systems. One reason is the difficulty of finding and retaining staff with outdated technical skills, many of which are possessed only by senior programmers nearing retirement. Hardware platforms such as Unisys are reaching the horizon of their usefulness, and consequently, older programming and data base languages are generally poorly supported by their providers. Additionally, maintenance costs are materially increasing as vendors squeeze the most out of clients before the life-cycles of hardware and software expire. In addition, the Internet has added a new level of pressure to compete in the electronic marketplace with sector rivals. We expect that the next ten years should see an upsurge of movement and change as organizations revamp their older legacy systems.

A segment of mainframe users is interested in simply updating their legacy systems without drastic rewritings to these systems in newer languages or adapting expensive off-the-shelf products (such as SAP or Oracle) to their needs. These potential customers are looking for automated tools that can quickly and cost-effectively move applications onto cheaper computer platforms without the risk of failure. Tools such as those provided by Micro Focus can perform this function by preserving the business rules in COBOL but extending the screens to be accessed over the Internet and providing compilers and utilities that allow the application to work on PC and UNIX platforms. It is difficult to determine the size of this segment, but even a 5% share of this market would represent hundreds of prospective customers.

The web solutions market continues to be one of the fastest growing segments of the computer consulting business as individuals, small companies, large companies, and governmental agencies expand their presence on the Internet. The range of products and services involved in this sector is extensive and therefore, require some specialization for a small company such as IAI to make an impact. Most small web companies are involved in building websites and typically have many short duration projects. More complex web applications generally require knowledge of customers back-end systems based on mainframe or mid-level computers. Few small companies have the expertise to develop these more sophisticated web applications. We distinguish ourselves among smaller companies by having this expertise that is usually associated with larger companies. These types of applications should become more prominent in the future as web-based solutions continue to evolve thereby resulting in increasing opportunities for those firms with the requisite skill sets and experience, such as those possessed by IAI.

The commercial and government sectors of the software migration and modernization market can be quite different in their requirements for web-based applications. Many companies are generally interested in cataloging and selling items whereas government agencies wish to disseminate data to the citizenry. There is some overlap in common functionality when web applications are designed for procurement transactions or customer relations. What distinguishes the government requirements is that most government processes are based on forms. Many government agencies rely on thousands of internal and external forms to conduct their business. Any company that wishes to develop governmental web applications must address the forms issue. Adobe electronic forms products resold and supported by IAI are the predominant forms software in the federal government.

***Description of Business and Strategy***

Since the mid-1990 s we have migrated customers from older computer languages generally associated with legacy computer systems to more modern languages used with current-day computer system platforms. Many organizations have become aware of the evolving obsolescence of these systems and are now beginning to fund their modernization. In addition, as part of this modernization, many organizations wish to extend these legacy systems to interface with web-based applications. Our strategy has been to develop and/or acquire tools that will facilitate the modernization process and differentiate our offerings in the marketplace.

In 2004, we aligned with Micro Focus, an established company in the legacy COBOL environment, to participate in an effort intended to promote, quickly and cost-effectively, the conversion of large legacy mainframe systems to PC and Unix server platforms. Micro Focus has developed a suite of products that simplify the conversion process and enable the entry screens to be Internet accessible. The convergence of these tools with the recent advancements in hardware performance of PC servers has finally permitted users to substantially reduce their annual mainframe hardware maintenance costs. As an authorized reseller and installer of the tools, our plan is to derive revenue from software sales and installation services as well as acquire supplementary programming services that typically occur with each engagement.

Over the last eleven years we have developed a series of workbench tools called ICONS. These tools, used in conjunction with our methodology, enhance a programmer s ability to convert code to new platforms and/or computer languages. ICONS can be used with a variety of languages such as DATACOM COBOL and IDEAL and Unisys COBOL. ICONS facilitates our ability to provide systems modernization services to companies and government agencies that seek to migrate from mainframe legacy systems to modern environments, including current computer languages, data bases, and mainframe, midrange, client servers, intranet and Internet platforms. A number of leads derived from Micro Focus and Microsoft require use of our ICONS tools as a precursor to implementing the Micro Focus solution.

We have structured our company to address the wide range of requirements that we envision the market will demand. We believe that the Micro Focus tool suite and the suite of ICONS tools will give us a competitive edge in performing certain conversions and migrations faster and more economically than many other vendors. The diverse capabilities of our staff in mainframe technology and client server implementations help to assure that our staff can analyze the original systems properly to conduct accurate and thorough conversions.

Our modernization methodology has developed over the past several years through the completion of successful conversion projects. Senior members of our professional staff can perform both technical and business requirements analyses, prepare general and detail design documentation and develop project plans including milestones, staffing, deliverables, and schedules. The actual work can be performed at customer sites or on our premises, which has mainframe and client server facilities for the use of our personnel.

Our strategy to exploit the conversion and modernization market is also based on forming alliances with large information technology consulting firms who currently maintain the legacy systems for large government agencies and Fortune 1000 companies. These firms have established relationships with such customers, who rely on their advice in selecting tools and services to modernize legacy systems. We have been successful in forming partnerships with firms such as IBM, EDS, Northrop Grumman, Unisys, SI International, and Oracle. These alliances have resulted in significant contracts in the past and are important in procuring future business.

In addition to gaining new business, we will focus on retaining and expanding existing contracts.

We are also using the experience we have acquired as an Adobe Lifecycle reseller to help secure engagements for web-based applications requiring forms. The Adobe products have evolved over the years into robust tools that can form the backbone of applications, especially those requiring forms. We have used this expertise to penetrate a number of federal government clients such as the Internal Revenue Service and Veteran Affairs and build sophisticated web applications. Our knowledge of legacy system languages has been instrumental in connecting these web applications to legacy databases residing on mainframe computers. Our company has built a core group of professionals that can build this practice over the coming years.

Concentrating on the niche of electronic forms-related web applications through our relationship with Adobe products, we have developed a cadre of professionals that can quickly and efficiently develop web applications. We will focus on federal government clients during 2010 and beyond and leverage the company s reputation with existing federal customers to penetrate these agencies. We will be able to reference successful projects completed or in development for the Department of Homeland Security, the Department of Veterans Affairs, Federal Mediation and Conciliation Service, U.S. Department of Agriculture, General Services Administration, Army Reserve, and U.S. Air Force Logistics Command.

We have also built several important relationships with larger companies such as Unisys, General Dynamics, Price Waterhouse Coopers, and Deloitte Consulting. These relationships have already resulted in new opportunities that we intend to expand in 2010.

Management will not only explore ways to expand our current market spaces, but intends to explore new ones that may offer more opportunity. This may take the shape of organic growth or through acquisition of other companies. In any event, IAI will be more aggressive than in the past and will take more risks in terms of investment in business development, exploring the potential of diversified business opportunities, and seeking targets of acquisition. We expect to see the results of these efforts during 2010.

***Backlog***

As of December 31, 2009, we estimated our backlog at approximately $21.3 million over the next three years, of which $3.8 million was funded. This backlog consists of outstanding contracts and general commitments from current clients. We regularly provide services to certain clients on an as-needed basis without regard to a specific contract. General commitments represent those services which we anticipate providing to such clients during a twelve-month period.

***Competition***

The competition in the conversion and modernization market is very strong. Many software professional services companies have had some involvement in this area and profess proficiency in performing these projects. We also face competition from other companies that purport to substantially automate the process through software tools including Blue Phoenix Solutions, Fujitsu, and IBM. Off the shelf software for enterprise resource planning, such as SAP and Oracle, provides an additional source of competition, although to date, the cost and lengthy installation time for enterprise resource planning software has slowed its implementation in the market place. No matter what type of solution is offered, many of our competitors have greater name recognition than our company, a larger, more established customer base, and significantly greater financial and market resources.

In the electronic forms arena there are multiple forms vendors such as IBM (Pure Edge), Microsoft, and FormNet. These are formidable competitors who are constantly trying to gain a share of the Adobe market penetration. In the federal marketplace, the cost of switching from Adobe and losing the sizeable investments in forms already developed gives Adobe an advantage in retaining and extending its client base. Also, the prevalence of Adobe s PDF standard format for presenting images in the electronic world is a difficult obstacle for its competitors to overcome.

There are hundreds of firms performing traditional information technology services and consulting for the federal government. A great number of them are much larger than IAI, and are more established in the marketplace, and have more resources to pursue individual prospects.

***Governmental Regulations***

We supply our products and services to the United States federal government pursuant to its General Services Administration Information Technology contract, its General Services Administration Mission Oriented Business Integrated Services contract, and through contracts resulting from competitive bidding processes. We are bound by various rules and regulations promulgated by agencies of the federal government. We have not experienced undue expense beyond those expenses normally incurred in our ordinary course of business in adhering to such rules and regulations.

***Intellectual Property***

We depend upon a combination of trade secret and copyright laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our methodologies, databases and software. We have not filed any patent applications covering our methodologies and software. In addition, we attempt to protect the secrecy of our proprietary databases and other trade secrets and proprietary information through agreements with employees and consultants.

We also seek to protect the source code of ICONS as trade secrets and under copyright law. The copyright protection accorded to databases, however, is fairly limited. While the arrangement and selection of data can be protected, the actual data is not, and others are free to create software performing the same function. We believe, however, that the creation of competing databases would be very time consuming and costly.

***Employees***

As of December 31, 2009, we employed 29 full-time and 4 part-time individuals. In addition, we maintained subcontractor relationships with companies and individuals that add 11 individuals for professional information technology services. Approximately 75% of our professional employees have at least four years of related experience. For computer related services, we believe that the diverse professional opportunities and interaction among our employees contribute to maintaining a stable professional staff with limited turnover.

We have no collective bargaining agreements or other such labor contracts with our employees and believe that our employee relationships are satisfactory. In the long-term, management will likely hire additional staff to meet its anticipated growth requirements. We do not anticipate encountering material problems in our ability to hire individuals with the requisite employee skill sets, despite a competitive market for our requisite technical skill sets and government clearances, when required. We utilize fee-based recruiting firms when it is necessary to speed up the process of locating and hiring employees with specialized skill sets and clearances.

***Available Information***

We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission, or SEC. Our website address is *www.infoa.com.*

**Item 1A. Risk Factors.**

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion 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.

*Failure to keep pace with a changing technological environment could negatively impact our business.*

The computer industry in general, and the market for our application software offerings and services, is characterized by rapidly changing technology, frequent new technology introductions, and significant competition. In order to keep pace with this rapidly changing market environment, we must continually develop and incorporate into our services new technological advances and features desired by the marketplace at acceptable prices. The successful development and commercialization of new services and technology involves many risks, including the identification of new opportunities, timely completion of the development process, the control and recovery of development and production costs and acceptance by customers of our products and services. If we are unsuccessful in identifying, developing and marketing our services and technology or adapting our business to rapid technological change, it will have a material negative impact on our results of operations.

*We are subject to intense competition from other companies engaged in software development and computer related services.*

The market for our products and services is competitive, rapidly evolving, and can be affected by new product introductions and other market activities of industry participants. Some of these companies have longer operating histories, greater financial, marketing and other resources, greater name recognition in other markets and a larger base of customers than IAI. In addition, some companies have well-established relationships with our current and prospective customers. As a result, these competitors may be able to devote greater resources to the development, promotion and sale of their products and services than we can. Should we not be able to maintain our competitive advantages in light of these factors, it could have a material negative impact on our results of operations.

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*If we are unable to accurately estimate the cost of services and the timeline for completion of contracts, the profitability of our contracts may be materially and adversely affected.*

Our commercial and federal government contracts are typically awarded on a competitive basis. Our bids are based upon, among other items, the cost to provide the services. To generate an acceptable return on our investment in these contracts we must be able to accurately estimate our costs to provide the services required by the contract and be able to complete the contracts in a timely manner. If we fail to accurately estimate our costs or the time required to complete a contract the profitability of our contracts may be materially and adversely affected.

*Changes in the way the US government contracts with businesses, and changes in the funding priorities of the US government may materially and adversely affect our revenue and earnings.*

Since the US government is our largest customer, both directly and with us as a subcontractor, changes in the way the government awards contracts may create a disadvantage for us to compete in certain markets. Additionally, the funding priorities of the US government are subject to change. If the information technology services that we are equipped to provide are no longer a priority, it may materially and adversely affect us as funding is shifted to new priorities.

*Contracts on which we utilize subcontractors or suppliers may be adversely affected if our subcontractors or suppliers fail to perform required obligations under the contract.*

We frequently utilize subcontract labor on contracts where we bid as partners, we lack a specific type of expertise, or where the subcontractor has brought the opportunity to us. If our subcontractors or suppliers fail to perform as specified, it may adversely affect our contracts and subject us to loss of the contracts, unintended expenses, and/or the inability to secure future contracts due to our nonperformance.

*US government contracts are generally subject to terms more favorable to the customer than commercial contracts.*

US government contracts generally contain provisions and are subject to laws and regulations that give the federal government rights and remedies not typically found in commercial contracts, including provisions permitting the federal government to:

- terminate our existing contracts;
- reduce potential future income from our existing contracts;
- modify some of the terms and conditions in our existing contracts;
- suspend or permanently prohibit us from doing business with the federal government or with any specific government agency;
- impose fines and penalties;
- subject the award of some contracts to protest or challenge by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new proposals for the contract or result in the termination, reduction or modification of the awarded contract;

suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;

decline to exercise an option to extend an existing multiple year contract; and

claim rights in technologies and systems invented, developed or produced by us.

The federal government may terminate a contract with us either for convenience (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if we default by failing to perform under the contract. If the federal government terminates a contract with us for convenience, we generally would be entitled to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. If the federal government terminates a contract with us based upon our default, we generally would be denied any recovery for undelivered work, and instead may be liable for excess costs incurred by the federal government in procuring undelivered items from an alternative source and other damages as authorized by law.

Our federal government contracts typically have terms of one or more base years and one or more option years. Federal governmental agencies generally have the right not to exercise options to extend a contract. A decision to terminate or not to exercise options to extend our existing contracts could have a material adverse effect on our business, prospects, financial condition and results of operations.

*We are dependent on key personnel to maintain our profitability and grow our business.*

Our future success depends, to a significant extent, on the continued services of our key personnel. A loss of certain key personnel, both managerial and technical, would most likely have an adverse effect on our business. In addition, competition for qualified technical personnel throughout the industry is significant and we may be unable to retain our current personnel or attract, integrate or retain other highly qualified personnel in the future. If we do not succeed in retaining our current personnel or in attracting and motivating new personnel, our business could be adversely affected.

*Failure to adequately integrate prospective new businesses or acquisitions could materially impact and disrupt our business.*

We are seeking to expand our business and may acquire or make investments in companies or businesses offering complementary products, services and technologies in the future. Acquisitions and investments typically involve numerous risks including, but not limited to difficulties in integrating operations, technologies, services and personnel and diversion of financial and managerial resources from existing operations. To manage this prospective growth effectively, we may need to implement additional management information systems capabilities, further develop our operating, administrative, financial and accounting systems and controls, improve coordination among accounting, finance, marketing and operations and hire and train additional personnel. Should these prospective integrations prove more difficult and time consuming than anticipated, it could negatively impact our results of operations.

*Fluctuations in our results of operations from period to period may cause fluctuations in our stock price.*

Our financial results vary from quarter to quarter based on certain factors such as the timing of significant orders, contract funding approvals and contract completions, some of which are beyond our control. As a consequence, our quarterly and annual revenue and operating results may fluctuate from period to period, and period comparisons may therefore not be meaningful. Such fluctuations in the future could contribute to corresponding fluctuations in our stock price and in certain cases cause the trading price of our stock to decline.

*The exercise of outstanding options and warrants to purchase our common stock could substantially dilute shareholders investments.*

Under the terms of existing warrants to purchase our common stock, non compensatory options to acquire our common stock, and other outstanding options to acquire our common stock issued to employees and others, the holders thereof are given an opportunity to profit from a rise in the market price of our common stock that, upon the exercise of such warrants and/or options or conversion of such notes, could result in dilution in the interests of our other shareholders.

*Our business potential could be impacted by our failure to adequately protect our intellectual property.*

Our success depends in part on our ability to obtain and maintain proprietary protection for our technologies, products, and processes, and our ability to operate without infringing the proprietary rights of other parties. We may not be able to obtain copyright, patent or other protection for our proprietary technologies or for certain processes developed by our employees. Legal standards relating to intellectual property rights in computer software are still developing and this area of the law is evolving with new technologies. Any copyrights, patents or other registrations may not sufficiently protect us against competitors with similar technology. In addition, our intellectual property rights may be challenged, narrowed, invalidated or circumvented. Our intellectual property rights do not guarantee any competitive advantage. Because our success in part relies upon our technologies, if proper protection is not available or can be circumvented, our business may be negatively impacted.

*There is a limited public market for our common stock*

Our common stock is presently quoted on the OTC Bulletin Board under the symbol IAIC , and the securities are traded through broker-dealers. Because our stock trades on the OTC Bulletin Board rather than on a national securities exchange, a shareholder may find it difficult to either dispose of, or obtain quotations as to the price of our common stock. There has historically been a low trading volume of our shares which may have an adverse impact on a shareholder s ability to execute transactions of our shares.

*Our forward-looking statements and projections may prove to be inaccurate.*

Our actual financial results likely will be different from those projected due to the inherent nature of projections and may be better or worse than projected. Given these uncertainties, you should not rely on forward-looking statements. The forward-looking statements contained in this Form 10-K speak only as of the date of this Form 10-K. We expressly disclaim a duty to provide updates to forward-looking statements after the date of this Form 10-K to reflect the occurrence of subsequent events, changed circumstances, changes in our expectations, or the estimates and assumptions associated with them. The forward-looking statements in this Form 10-K are intended to be subject to the safe harbor protection provided by the federal securities laws.

**Item 2. Properties.**

Our offices are located at 11240 Waples Mill Road, Fairfax, VA 22030. We hold a lease for 4,434 square feet. This lease expires on May 31, 2013. We believe that our current facility is suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

**Item 3. Legal Proceedings.**

There are presently no pending legal proceedings to which we are a party or to which any of our property is subject and, to the best of our knowledge, no such actions against us are contemplated or threatened.

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**Information Analysis Incorporated** 2009 Annual Report on Form 10-K

## PART II

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

***Market Information***

Our Common Stock trades on the Over-the-Counter Bulletin Board under the symbol IAIC. The following table sets forth, for the fiscal periods indicated, the high and low bid prices of the Common Stock, as reported by Yahoo Finance:

| | Fiscal Year Ended December 31, 2009 | | | | Fiscal Year Ended December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quarter Ended: | | | | Quarter Ended: | | | |
| | 3/31/09 | 6/30/09 | 9/30/09 | 12/31/09 | 3/31/08 | 6/30/08 | 9/30/08 | 12/31/08 |
| High | $ 0.08 | $ 0.15 | $ 0.48 | $ 0.20 | $ 0.37 | $ 0.29 | $ 0.18 | $ 0.14 |
| Low | $ 0.05 | $ 0.06 | $ 0.09 | $ 0.10 | $ 0.25 | $ 0.14 | $ 0.14 | $ 0.04 |

The quotations on which the above data are based reflect inter-dealer prices without adjustment for retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

Because our stock trades on the OTC Bulletin Board rather than on a national securities exchange, a shareholder may find it difficult to either dispose of or obtain quotations as to the price of our common stock. There has historically been a low trading volume of our shares which may have an adverse impact on a shareholder s ability to execute transactions of our shares.

***Holders***

As of December 31, 2009, we had 116 holders of record of our Common Stock.

***Dividends***

We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends within the foreseeable future. Our management anticipates that all earnings, if any, will be retained for development of our business. Any future dividends will be subject to the discretion of the board of directors and will depend on, among other things, future earnings, our operating and financial condition, our capital requirements and general business conditions.

***Securities authorized for issuance under equity compensation plans***

The following table contains information regarding securities authorized and available for issuance under our equity compensation plans for certain employees, directors, and consultants.

*Equity Compensation Plan Information*

| Plan Category | Number of securities to be issued upon exercise of | Weighted-average exercise price of outstanding | Number of securities remaining available for future issuance under equity |
|---|---|---|---|

| | outstanding options, warrants, and rights (a) | options, warrants, and rights (b) | compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders[1,2] | 1,019,000 | $ 0.33 | 553,000 |
| Equity compensation plans not approved by security holders | | | |
| Total | 1,019,000 | $ 0.33 | 553,000 |

1 The Company has a stock incentive plan, which became effective May 18, 2006, and expires May 17, 2016 (the 2006 Plan ). The 2006 Plan provides for the granting of equity awards to employees and directors. The maximum number of shares for which equity awards may be granted under the 2006 Plan is 950,000. Options under the 2006 Plan expire no later than ten years from the date of grant or 90 days after employment ceases, whichever comes first, and vest over periods determined by the Board of Directors.

2 The Company had a stock option plan, which became effective June 25, 1996, and expired May 29, 2006 (the 1996 Plan ). The plan provided for the granting of stock options to employees and directors. The maximum number of shares for which options could be granted under the 1996 Plan was 3,075,000. Options expire no later than ten years from the date of grant or 90 days after employment ceases, whichever comes first, and vest over periods determined by the Board of Directors.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with the attached financial statements and notes thereto. Reference is made to Cautionary Statement Regarding Forward-Looking Statements on page 1 hereof, which describes important factors that could cause actual results to differ from expectations and non-historical information contained herein.

***Overview***

During 2009 our sales and marketing efforts were focused to capitalize on our expertise in these areas electronic forms software, conversion, modernization, accessibility, and web-enablement, services and tools to address the legacy modernization/conversion market, including third party tools, legacy and post-conversion database support, development and support of database-backed web portals, other web-based solutions, and management consulting services.

In 2009 we had net income of $164,062. Our stockholders equity was $1,719,584 at December 31, 2009. Our gross margins improved by $479,695 on only slightly increased revenue. Direct costs related to sales of professional services fell by $567,060, due to a number of new contracts which capitalized on the efficiencies of our employees and systems in our modernization and electronic forms disciplines. Our expenses related to sales, general and administrative infrastructure decreased slightly in 2009, though expenditures for commissions earned increased significantly. The commission increases are directly related to the margin increases on our contracts, and the resulting commissions payable are reflected in increases in accrued liabilities. Our accounts payable decreased by $712,222 due to the timing of product orders, several of which were outstanding at the prior year end. Our deferred revenue increased due to additional sales of maintenance contracts.

Despite having net income and increases in deferred revenue, our cash and cash equivalents decreased $70,831, due to increases in prepaid maintenance contracts under which revenue is deferred and a large decrease in accounts payable. We were able to maintain and to grow our investment in interest bearing accounts, and we were able to operate throughout 2009 without borrowing against our line of credit.

***Results of Operations***

The following table sets forth, for the periods indicated, selected information from our Statements of Operations, expressed as a percentage of revenue:

| | Years Ended | |
|---|---|---|
| | **December 31, 2009** | **December 31, 2008** |
| Revenue | 100.0% | 100.0% |
| Cost of Goods Sold | 68.2% | 75.0% |
| Gross Profit | 31.8% | 25.0% |

| | | |
|---|---|---|
| Operating Expenses | | |
| Selling, general and administrative | (29.5)% | (30.8)% |
| Income (loss) from operations | 2.3% | (5.8)% |
| Other income | 0.1% | 0.3% |
| Income (loss) before income taxes | 2.4% | (5.5)% |
| Provision for income taxes | (0.0)% | (0.0)% |
| Net income (loss) | 2.4% | (5.5)% |

***2009 Compared to 2008***

*Revenue.* Revenue for 2009 increased $18 thousand, or 0.3%, to $6.71 million from $6.69 million in 2008. Revenue from professional services decreased $12 thousand, or 0.2%, to $4.94 million in 2009 from $4.95 million in 2008. Revenue from software sales increased $30 thousand, or 1.7%, to $1.77 million in 2009 from $1.74 million in 2008. In 2009, we were able to replace expiring professional services contracts with contracts that generated a similar amount of revenue.

*Gross Profit*. Gross profit increased $480 thousand, or 28.6% in 2009 versus 2008. Gross profit as a percentage of revenue increased to 32.1% of revenue in 2009 from 25.0% of revenue in 2008. Though revenue remained fairly consistent, direct costs related to sales of professional services fell by $567 thousand, due to a number of new contracts which capitalized on the efficiencies of our employees and systems in our modernization and electronic forms disciplines. Professional services gross margin was $1.8 million or 37.2% of revenue in 2009, compared to $1.3 million, or 25.9% of revenue in 2008. Software sales gross margin decreased from $395 thousand in 2008 to $319 thousand in 2009. Gross margin as a percentage of revenue for software sales decreased from 22.6% in 2008 to 18.0% in 2009. This difference in gross margin as a percentage of revenue for software sales is largely due to pricing changes with suppliers and changes in the product mix sold.

*Selling, General and Administrative.* Selling, general and administrative expense for 2009 decreased $67 thousand to $2.00 million, or 29.8% of revenue, from $2.07 million, or 30.9% of revenue, in 2008. Commissions on sales increased significantly with the increases in gross profit, but decreases in most other areas of selling, general and administrative expenses absorbed those increases.

***Recently Adopted Accounting Pronouncements***

In June 2009, the FASB issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Company s accounting policies. The adoption of the Codification did not have a material impact on the Company s financial position or results of operations.

In May 2009, the FASB revised the authoritative guidance for subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance was effective for financial statements issued for interim and annual reporting periods ending after June 15, 2009. We adopted this guidance for the period ended June 30, 2009, and have provided the disclosures required for the period ending December 31, 2009.

***Recent Accounting Pronouncements Not Yet Adopted***

In October 2009, the FASB issued Update No. 2009-13, which amends the Revenue Recognition topic of the Codification. This update provides amendments to the criteria in Subtopic 605-25 of the Codification for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments establish a selling price hierarchy for determining the selling price of a deliverable and will replace the term *fair value* in the revenue allocation guidance with *selling price* to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. The amendments will also eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and will require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact the adoption of this update might have on our results of operations and financial condition.

In October 2009, the FASB issued Update No. 2009-14, which amends the Software topic of the Codification. The amendments in this update change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605 of the Codification. In addition, the amendments in this update require that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In that regard, the amendments provide additional guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of the software revenue guidance. The amendments also provide guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. The amendments also provide further guidance on how to allocate arrangement consideration when an arrangement includes deliverables both included and excluded from the scope of the software revenue guidance. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact the adoption of this update might have on our results of operations and financial condition.

***Liquidity and Capital Resources***

In 2009, we returned to experiencing income from operations as well as net income. Our beginning cash and cash equivalents balance, when combined with our cash flow from operations, were sufficient to provide financing for our operations. For 2009, net cash used by operating, investing and financing activities was $70,831, which when added to a beginning balance of $1,549,335 yielded cash and cash equivalents of $1,478,504 at December 31, 2009. Our accounts receivable balances decreased $181,503, due to a combination of a decrease in outstanding product-related invoices at year end and our concerted efforts to get invoices billed more timely and to collect balances on them in a more timely way. Our accounts payable balance at December 31, 2009, was $89,560, $712,222 less than at the prior year end. We had no non-current liabilities at December 31, 2009.

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 December 1, 2010. As of December 31, 2009, no amounts were outstanding under this line of credit. We did not borrow against this line of credit in 2009.

Given our strong cash position, we anticipate that we will be able to meet our cash requirements beyond the next twelve months, based on our current operating plan.

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.

***Contractual Obligations***

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| [Long-Term Debt Obligations] | $ | $ | $ | $ | $ |
| [Capital Lease Obligations] | | | | | |
| [Operating Lease Obligations] | | | | | |
| Lease of Principal Offices | 306,238 | 78,307 | 187,750 | 40,181 | |
| [Purchase Obligations] | | | | | |
| [Other Long-Term Liabilities Reflected on the Registrant s Balance Sheet under GAAP] | | | | | |
| **Total** | $ 306,238 | $ 78,307 | $ 187,750 | $ 40,181 | $ |

***Off-Balance Sheet Arrangements***

We do not have any off balance sheet arrangements that have or are likely to have a material current or future effect on our financial condition, or changes in financial condition, liquidity or capital resources or expenditures.

***Critical Accounting Policies and Estimates***

Our significant accounting policies are described in Note 1 to our accompanying financial statements. We consider the accounting policies related to revenue recognition to be critical to the understanding of our results of operations. Our critical accounting policies also include the areas where we have made what we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly impact our financial results under different assumptions and conditions. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

***Revenue Recognition***

We generally recognize revenue when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered probable and can be reasonably estimated. We earn revenue under time and materials and fixed price contracts. For sales of third party software products, we recognize revenue upon delivery.

We recognize revenue on time and materials contracts based on direct labor hours expended at contract billing rates and adding other billable direct costs.

For fixed price contracts that are based on unit pricing, we recognize revenue for the number of units delivered in proportion to total expected units to be delivered in any given reporting period.

For fixed price contracts in which we are paid a specific amount to be available to provide a particular service for a stated period of time, we recognize revenue ratably over the service period. We apply this method of revenue recognition to sales of maintenance contracts on third party software products, as on Adobe and Micro Focus software, for which we are responsible for first line support to the customer and for serving as a liaison between the customer and the third party maintenance provider for issues we are unable to resolve.

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We engage in fixed price contracts with the U.S. Government involving the complex delivery of technology products and services. Accordingly, these contracts are within the scope of the American Institute of Certified Public Accountants Audit and Accounting Guide for Audits of Federal Government Contractors. To the extent contracts are incomplete at the end of an accounting period, we recognize revenue on the percentage-of-completion method, on a proportional performance basis, using costs incurred in relation to total estimated costs.

Sales of third party software products such as Adobe and Micro Focus products are reported on a gross basis with IAI as a principal under authoritative guidance from the Financial Accounting Standards Board (FASB). This determination was based on the following: 1) We have inventory risk as suppliers are not obligated to accept returns, 2) we have reasonable latitude, within economic constraints, in establishing price, 3) we, in our marketing efforts, frequently aid the customer in determining product specifications, 4) we have physical loss inventory risk as title transfers at the shipping point, 5) we bear full credit risk, and 6) the amount we earn in the transaction is neither a fixed dollar amount nor a fixed percentage.

Our contracts with agencies of the government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectability of the contract price, we consider our previous experiences with our customers, communications with our customers regarding funding status, and our knowledge of available funding for the contract or program. If funding is not assessed as probable, we defer revenue recognition until realization is deemed probable.

Payments received in advance of services performed are recorded and reported as deferred revenue. Services we perform prior to invoicing customers are recorded as unbilled accounts receivable and are presented on our balance sheets in the aggregate with accounts receivable.

***Effects of Inflation***

In the opinion of management, inflation has not had a material effect on our operations.

**Item 8. Financial Statements and Supplementary Data.**

**PART F/S**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Information Analysis Incorporated

We have audited the accompanying balance sheets of Information Analysis Incorporated as of December 31, 2009 and 2008, and the related statements of operations, changes in stockholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Information Analysis Incorporated as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Reznick Group, P.C.

Vienna, Virginia

March 31, 2010

**INFORMATION ANALYSIS INCORPORATED**

**BALANCE SHEETS**

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,478,504 | $ 1,549,335 |
| Accounts receivable, net | 940,206 | 1,121,709 |
| Prepaid expenses | 688,914 | 469,785 |
| Other assets | | 1,028 |
| Total current assets | 3,107,624 | 3,141,857 |
| Fixed assets, net of accumulated depreciation and amortization of $559,945 and $527,445 | 36,434 | 55,653 |
| Other assets | 6,281 | 6,281 |
| Total assets | $ 3,150,339 | $ 3,203,791 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 89,560 | $ 801,782 |
| Deferred revenue | 779,367 | 602,713 |
| Other accrued liabilities | 306,910 | 31,292 |
| Accrued payroll and related liabilities | 254,918 | 213,830 |
| Income taxes payable | | 1,971 |
| Total current liabilities | 1,430,755 | 1,651,588 |
| Stockholders equity | | |
| Common stock, $0.01 par value, 30,000,000 shares authorized, 12,839,376 issued, 11,196,760 outstanding as of December 31, 2009 and 2008 | 128,393 | 128,393 |
| Additional paid-in capital | 14,553,386 | 14,550,067 |
| Accumulated deficit | (12,031,984) | (12,196,046) |
| Treasury stock, 1,642,616 shares at cost at December 31, 2009 and 2008 | (930,211) | (930,211) |
| Total stockholders equity | 1,719,584 | 1,552,203 |
| Total liabilities and stockholders equity | $ 3,150,339 | $ 3,203,791 |

The accompanying notes are an integral part of the financial statements

**INFORMATION ANALYSIS INCORPORATED**

**STATEMENTS OF OPERATIONS**

| | For the years ended December 31, 2009 | 2008 |
|---|---|---|
| Sales | | |
| Professional fees | $ 4,938,594 | $ 4,950,619 |
| Software sales | 1,772,780 | 1,742,834 |
| Total sales | 6,711,374 | 6,693,453 |
| Cost of sales | | |
| Cost of professional fees | 3,101,775 | 3,668,835 |
| Cost of software sales | 1,453,525 | 1,348,239 |
| Total cost of sales | 4,555,300 | 5,017,074 |
| Gross profit | 2,156,074 | 1,676,379 |
| Selling, general and administrative expenses | 2,001,908 | 2,068,983 |
| Income (loss) from operations | 154,166 | (392,604) |
| Other income | 9,896 | 21,214 |
| Income (loss) before provision for income taxes | 164,062 | (371,390) |
| Provision for income taxes | | |
| Net income (loss) | $ 164,062 | $ (371,390) |
| Earnings (loss) per common share - basic | $ 0.01 | $ (0.03) |
| Earnings (loss) per common share - diluted | $ 0.01 | $ (0.03) |
| Weighted average common shares outstanding | | |
| Basic | 11,196,760 | 11,196,760 |
| Diluted | 11,207,905 | 11,196,760 |

The accompanying notes are an integral part of the financial statements

**INFORMATION ANALYSIS INCORPORATED**

**STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

| | **Shares of Common Stock Issued** | **Common Stock** | **Additional Paid-in Capital** | **Accumulated Deficit** | **Treasury Stock** | **Total** |
|---|---|---|---|---|---|---|
| Balances, December 31, 2007 | 12,839,376 | $ 128,393 | $ 14,545,367 | $ (11,824,656) | $ (930,211) | $ 1,918,893 |
| Net Income | | | | (371,390) | | (371,390) |
| Stock option compensation | | | 4,700 | | | 4,700 |
| Balances, December 31, 2008 | 12,839,376 | $ 128,393 | $ 14,550,067 | $ (12,196,046) | $ (930,211) | $ 1,552,203 |
| Net Income | | | | 164,062 | | 164,062 |
| Stock option compensation | | | 3,319 | | | 3,319 |
| Balances, December 31, 2009 | 12,839,376 | $ 128,393 | $ 14,553,386 | $ (12,031,984) | $ (930,211) | $ 1,719,584 |

The accompanying notes are an integral part of the financial statements

**INFORMATION ANALYSIS INCORPORATED**

**STATEMENTS OF CASH FLOWS**

| | For the years ended December 31, 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 164,062 | $ (371,390) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | |
| Stock option compensation | 3,319 | 4,700 |
| Depreciation and amortization | 32,500 | 35,880 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 181,503 | 438,321 |
| Other assets and prepaid expenses | (218,101) | 1,420 |
| Accounts payable and accrued expenses | (395,516) | 22,840 |
| Deferred revenue | 176,654 | 208,739 |
| Income taxes payable | (1,971) | (1,529) |
| Net cash (used in) provided by operating activities | (57,550) | 338,981 |
| Cash flows from investing activities: | | |
| Acquisition of furniture and equipment | (13,281) | (12,388) |
| Net cash used in investing activities | (13,281) | (12,388) |
| Net (decrease) increase in cash and cash equivalents | (70,831) | 326,593 |
| Cash and cash equivalents, beginning of the year | 1,549,335 | 1,222,742 |
| Cash and cash equivalents, end of the year | $ 1,478,504 | $ 1,549,335 |
| Supplemental cash flow information | | |
| Interest paid | $ | $ |
| Income taxes paid | $ | $ 1,529 |

The accompanying notes are an integral part of the financial statements

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**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

***Operations***

Information Analysis Incorporated (the Company) was incorporated under the corporate laws of the Commonwealth of Virginia in 1979 to develop and market computer applications software systems, programming services, and related software products and automation systems. The Company provides services to customers throughout the United States, with a concentration in the Washington, D.C. metropolitan area.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

***Revenue Recognition***

Generally the Company recognizes revenue when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered probable and can be reasonably estimated. Revenue is earned under time and materials and fixed price contracts. For sales of third party software products, revenue is recognized upon delivery.

Revenue on time and materials contracts is recognized based on direct labor hours expended at contract billing rates and adding other billable direct costs.

For fixed price contracts that are based on unit pricing, the Company recognizes revenue for the number of units delivered in proportion to total expected units to be delivered in any given reporting period.

For fixed price contracts in which the Company is paid a specific amount to be available to provide a particular service for a stated period of time, revenue is recognized ratably over the service period. The Company applies this method of revenue recognition to resale of maintenance contracts on third party software sales, as on Adobe and Micro Focus software, for which the Company is responsible for first line support to the customer and for serving as a liaison between the customer and the third party maintenance provider for issues the Company is unable to resolve.

The Company engages in fixed price contracts with the U.S. Government involving the complex delivery of technology products and services. Accordingly, these contracts are within the scope of the American Institute of Certified Public Accountants Audit and Accounting Guide for Audits of Federal Government Contractors. To the extent contracts are incomplete at the end of an accounting period, revenue is recognized on the percentage-of-completion method, on a proportional performance basis, using costs incurred in relation to total estimated costs.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**1. Summary of Significant Accounting Policies (continued)**

Sales of third party software products such as Adobe and Micro Focus products are reported on a gross basis with the Company as a principal under authoritative guidance issued by the FASB,. This determination was based on the following: 1) the Company has inventory risk as suppliers are not obligated to accept returns, 2) the Company has reasonable latitude, within economic constraints, in establishing price, 3) the Company, in its marketing efforts, frequently aids the customer in determining product specifications, 4) the Company has physical loss inventory risk as title transfers at the shipping point, 5) the Company bears full credit risk, and 6) the amount the Company earns in the transaction is neither a fixed dollar amount nor a fixed percentage.

The Company s contracts with agencies of the government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectability of the contract price, the Company considers its previous experiences with its customers, communications with its customers regarding funding status, and the Company s knowledge of available funding for the contract or program. If funding is not assessed as probable, revenue recognition is deferred until realization is deemed probable.

Payments received in advance of services performed are recorded and reported as deferred revenue. Services performed prior to invoicing customers are recorded as unbilled accounts receivable and are presented on the Company s balance sheets in the aggregate with accounts receivable.

***Segment Reporting***

In accordance with authoritative guidance issued by the FASB, the Company has concluded that it operates in one business segment, providing products and services to modernize client information systems.

***Government Contracts***

The Company s sales to departments or agencies of the United States government are subject to audit by the Defense Contract Audit Agency (DCAA), which could result in the renegotiation of amounts previously billed. Audits by DCAA were completed through the year ended December 31, 1997. No amounts were changed as a result of the audits. Since the Company has entered into no cost plus fixed fee contracts since 1997, management is of the opinion that any disallowance of costs for subsequent fiscal years by government auditors, other than amounts already provided, will not materially affect the Company s financial statements.

***Cash and Cash Equivalents***

For the purposes of the statement of cash flows, the Company considers all highly liquid investments with maturities of ninety days or less at the time of purchase to be cash equivalents. Deposits are maintained with a federally insured bank. Balances at times exceed federally insured limits, but management does not consider this to be a significant concentration of credit risk.

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**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**1. Summary of Significant Accounting Policies (continued)**

***Accounts Receivable***

Accounts receivable consist of trade accounts receivable and do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. The Company reviews its allowance for doubtful accounts monthly. Accounts with receivable balances past due over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. The Company has recorded an allowance for doubtful accounts of $29,918 and $9,229 at December 31, 2009 and 2008, respectively.

***Fixed Assets***

Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Furniture and fixtures are depreciated over the lesser of the useful life or five years, off-the-shelf software is depreciated over the lesser of three years or the term of the license, custom software is depreciated over the least of five years, the useful life, or the term of the license, and computer equipment is depreciated over three years. Leasehold improvements are amortized over the estimated term of the lease or the estimated life of the improvement, whichever is shorter. Maintenance and minor repairs are charged to operations as incurred. Gains and losses on dispositions are recorded in current operations.

***Stock-Based Compensation***

At December 31, 2009, the Company had the stock-based compensation plans described in Note 10 below. Total compensation expense related to these plans was $3,319 and $4,700 for the years ended December 31, 2009 and 2008, respectively, of which $90 and $0, respectively, related to options awarded to non-employees. The Company estimates the fair value of options granted to establish the expense using the Black-Scholes model.

***Earnings Per Share***

The Company s earnings per share calculations are based upon the weighted average number of shares of common stock outstanding. The dilutive effect of stock options, warrants and other equity instruments are included for purposes of calculating diluted earnings per share, except for periods when the Company reports a net loss, in which case the inclusion of such equity instruments would be antidilutive.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**1. Summary of Significant Accounting Policies (continued)**

***Recent Accounting Pronouncements adopted for 2009***

In June 2009, the FASB issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Company s accounting policies. The adoption of the Codification did not have a material impact on the Company s financial position or results of operations.

In May 2009, the FASB revised the authoritative guidance for subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance was effective for financial statements issued for interim and annual reporting periods ending after June 15, 2009. We adopted this guidance for the period ended June 30, 2009, and have provided the disclosures required for the period ending December 31, 2009.

***Recent Accounting Pronouncements not yet adopted***

In October 2009, the FASB issued Update No. 2009-13, which amends the Revenue Recognition topic of the Codification. This update provides amendments to the criteria in Subtopic 605-25 of the Codification for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments establish a selling price hierarchy for determining the selling price of a deliverable and will replace the term *fair value* in the revenue allocation guidance with *selling price* to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. The amendments will also eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and will require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact the adoption of this update might have on our results of operations and financial condition.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**1. Summary of Significant Accounting Policies (continued)**

In October 2009, the FASB issued Update No. 2009-14, which amends the Software topic of the Codification. The amendments in this update change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605 of the Codification. In addition, the amendments in this update require that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In that regard, the amendments provide additional guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of the software revenue guidance. The amendments also provide guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. The amendments also provide further guidance on how to allocate arrangement consideration when an arrangement includes deliverables both included and excluded from the scope of the software revenue guidance. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact the adoption of this update might have on our results of operations and financial condition.

***Income Taxes***

Deferred tax assets and liabilities are computed based on the difference between the financial statement and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws for the taxable years in which those differences are expected to reverse. In addition, a valuation allowance is required to be recognized if it is believed more likely than not that a deferred tax asset will not be fully realized. Authoritative guidance prescribes a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those positions to be recognized in the financial statements. The Company continually reviews tax laws, regulations and related guidance in order to properly record any uncertain tax liabilities.

***Fair Market Value of Financial Instruments***

The Company s financial instruments include trade receivables, other receivables, and accounts payable. Management believes the carrying value of financial instruments approximates their fair market value, unless disclosed otherwise in the accompanying notes.

***Subsequent Events***

The Company has evaluated subsequent events occurring through the filing date of these financial statements and has determined that all appropriate subsequent event disclosures, if any, have been made in the notes to the financial statements.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**2. Receivables**

Accounts receivable at December 31, 2009 and 2008, consist of the following:

| | 2009 | 2008 |
|---|---|---|
| Billed-federal government | $ 914,850 | $ 1,027,324 |
| Billed-commercial and other | 55,274 | 103,614 |
| Total billed | 970,124 | 1,130,938 |
| Unbilled | | |
| Less: allowance for doubtful accounts | (29,918) | (9,229) |
| Accounts receivable, net | $ 940,206 | $ 1,121,709 |

Billed receivables from the federal government include amounts due from both prime contracts and subcontracts where the federal government is the end customer. Unbilled receivables are for services provided through the balance sheet date that are expected to be billed and collected within one year.

**3. Fixed Assets**

A summary of fixed assets and equipment at December 31, 2009 and 2008, consist of the following:

| | 2009 | 2008 |
|---|---|---|
| Furniture and equipment | $ 177,956 | $ 175,481 |
| Computer equipment and software | 418,423 | 407,617 |
| Subtotal | 596,379 | 583,098 |
| Less: accumulated depreciation and amortization | (559,945) | (527,445) |
| Total | $ 36,434 | $ 55,653 |

Depreciation expense for the years ended December 31, 2009 and 2008, were $32,500 and $35,880, respectively.

**4. Other Accrued Liabilities**

Other accrued liabilities at December 31, 2009 and 2008, consist of the following:

| | 2009 | 2008 |
|---|---|---|
| Commissions payable | $ 222,101 | $ 10,995 |
| Accrued expenses | 48,876 | 20,297 |
| Bonuses payable | 30,000 | |
| Unclaimed property | 5,933 | |
| Total other accrued liabilities | $ 306,910 | $ 31,292 |

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**5. Revolving Line of Credit**

On December 20, 2005, the Company entered into a revolving line of credit agreement with TD Bank providing for demand or short-term borrowings up to $1,000,000. In December 2009, the credit agreement was modified to adjust the interest rate index to 3.75% above the British Bankers Association London Interbank Offered Rate (BBA LIBOR), to amend certain covenants, and to modify the fee structure. The line of credit expires on December 1, 2010. Draws against the line are limited by varying percentages of the Company s eligible accounts receivable balances. The bank is granted a security interest in all company assets if there are borrowings under the line of credit. Interest on outstanding balances is payable monthly. The effective rate at December 31, 2009, was 3.98%. At December 31, 2008, interest on outstanding balances was payable monthly at the Wall Street Journal Prime Rate plus 0.25%, with an effective rate of 3.5%. The bank has a first priority security interest in the Company s receivables and a direct assignment of its U.S. government contracts. Under the loan agreement, the Company has agreed to be bound by certain covenants, including maintaining positive net income as tested on an annual basis, maintaining a minimum tangible net worth, and producing a number of periodic financial reports for the benefit of the bank. There was no outstanding balance on the line of credit at December 31, 2009 or 2008.

**6. Commitments and Contingencies**

***Operating Leases***

The Company leases facilities under long-term operating lease agreements through May 2013. Rent expense was $104,022 and $99,145 for the years ended December 31, 2009 and 2008, respectively.

The future minimum rental payments to be made under long-term operating leases are as follows:

| | | |
|---|---|---|
| Year ending December 31, | 2010 | 78,307 |
| | 2011 | 92,488 |
| | 2012 | 95,262 |
| | 2013 | 40,181 |
| Total minimum rent payments | | $ 306,238 |

The above minimum lease payments reflect the base rent under the lease agreements. However, these base rents can be adjusted each year to reflect the Company s proportionate share of increases in the building s operating costs and the Company s proportionate share of real estate tax increases on the leased property.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**7. Income Taxes**

The tax effects of significant temporary differences representing deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008, are as follows:

| | 2009 | 2008 |
|---|---|---|
| Deferred tax assets (liabilities): | | |
| Net operating loss carryforward | $ 5,900,900 | $ 6,049,100 |
| Accrued vacation and commissions | 90,100 | 32,000 |
| Fixed assets | 48,300 | (102,700) |
| Allowance for doubtful accounts | 11,400 | 3,500 |
| AMT tax credit carryforward | 6,600 | 6,600 |
| Other | 2,800 | 3,600 |
| Subtotal | 6,060,100 | 5,992,100 |
| Valuation allowance | (6,060,100) | (5,992,100) |
| Total | $ | $ |

The provision for income taxes is at an effective rate different from the federal statutory rate due principally to the following:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Income before taxes | $ 164,062 | $ (371,390) |
| Income tax expense (benefit) on above amount at federal statutory rate | 55,800 | (126,300) |
| State income tax expense (benefit), net of federal expense (benefit) | 6,500 | (14,800) |
| Permanent differences | 6,100 | 7,300 |
| Other | (136,400) | 100 |
| Change in valuation allowance | 68,000 | 133,700 |
| Provision for income taxes | $ | $ |

Income tax for the years ended December 31, 2009 and 2008 consists of the following:

| | December 31, 2009 | 2008 |
|---|---|---|
| Current income taxes | | |
| Federal | $ 119,000 | $ |
| State | 14,000 | |
| Alternative minimum tax | | |
| Benefit from utilization of net operating losses | (133,000) | |
| | | |
| Deferred taxes | | |
| | $ | $ |

The Company has recognized a valuation allowance to the full extent of its net deferred tax assets which the Company determined to be not more-likely-than-not realizable. The Company has net operating loss carryforwards of approximately $15.5 million, which expire, if unused, between the years 2012 and 2028.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**7. Income Taxes (continued)**

The Company may have been deemed to have experienced changes in ownership which may impose limitations on its ability to utilize net operating loss carryforwards under Section 382 of the internal Revenue Code. However, this deferred tax asset is fully offset by a valuation allowance.

The Company has analyzed its income tax positions using the criteria required by financial accounting standards and concluded that as of December 31, 2009 and 2008, it has no material uncertain tax positions and no interest or penalties have been accrued. The Company has elected to recognize any estimated penalties and interest on its income tax liabilities as a component of its provision for income taxes.

**8. Major Customers and Major Suppliers**

The Company s prime contracts and subcontracts with agencies of the federal government accounted for 91% and 88% of the Company s revenues during 2009 and 2008, respectively. The Company has prime contracts with one federal government agency that accounted for 13% and 12% of the Company s 2009 and 2008 revenue, respectively, and prime contracts with another federal government agency that accounted for 0% and 29% of the Company s 2009 and 2008 revenue, respectively. Also, the company has subcontracts under two other companies for which work is done for federal agencies that account for 15% and 12% of the Company s 2009 revenue, and 0% of the 2008 revenue.

The Company sold third party software and maintenance contracts under agreements with three major suppliers. These sales accounted for 26% of total revenue in both 2009 and 2008. Resale of third party software is recognized upon delivery. Revenue on third party software sales was recognized on a gross, as opposed to a net, basis in accordance with generally accepted accounting principles.

**9. Retirement Plans**

The Company has a Cash or Deferred Arrangement Agreement (CODA), which satisfies the requirements of section 401(k) of the Internal Revenue Code. This defined contribution retirement plan covers substantially all employees. Participants can elect to have up to the maximum percentage allowable of their salaries reduced and contributed to the plan. The Company may make matching contributions equal to a discretionary percentage of a discretionary percentage of the participants elective deferrals. In 2009 and in 2008, the Company matched 25% of the first 6% of the participants elective deferrals. The Company may also make additional contributions to all eligible employees at its discretion. The Company did not make additional contributions during 2009 or 2008. Matching contributions for the year ended December 31, 2009 and 2008 were $24,446 and $27,095, respectively.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**10. Stock Options and Warrants**

The Company granted stock options to certain of our employees under two plans. The 1996 Stock Option Plan was adopted in 1996 ( 1996 Plan ) and had options granted under it through May 29, 2006. In 2006, the Board of Directors approved and the shareholders ratified the 2006 Stock Incentive Plan ( 2006 Plan ).

As determined by the members of the Compensation Committee, the Company generally grants options under the 2006 Plan at the estimated fair value at the date of grant, based upon all information available to it at the time.

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, generally, the option vesting term of six months to two years. The fair values of option awards granted in 2009 and 2008 were estimated using the Black-Sholes option pricing model under the following assumptions:

| | 2009 | 2008 |
|---|---|---|
| Risk free interest rate | 1.60% 3.72% | 2.78% 3.49% |
| Dividend yield | 0% | 0% |
| Expected term | 5-10 years | 5 years |
| Expected volatility | 59.1 105.6% | 61.2 64.4% |

***2006 Stock Incentive Plan***

The Company has a stock incentive plan, which became effective May 18, 2006, and expires May 17, 2016 (the 2006 Plan ). 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 may be granted under the 2006 Plan is 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. The average vesting period for options granted to employees under the 2006 Plan in the years ended December 31, 2009 and 2008, was eighteen months. The exercise price of each option equals the quoted market price of the Company s stock on the date of grant.

***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 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 622,000 unexpired exercisable options remaining from the 1996 Plan at December 31, 2009.

The status of the options issued under the foregoing option plans as of December 31, 2009, and changes during the years ended December 31, 2009 and 2008, were as follows:

| | Options outstanding | |
|---|---|---|
| | **Number of shares** | **Weighted average price per share** |
| Balance at December 31, 2007 | 1,109,000 | $ 0.41 |
| Options granted | 41,500 | 0.24 |
| Options exercised, expired or forfeited | 61,500 | 1.26 |
| Balance at December 31, 2008 | 1,089,000 | 0.35 |
| Options granted | 37,000 | 0.09 |
| Options exercised, expired or forfeited | 107,000 | 0.53 |
| Balance at December 31, 2009 | 1,019,000 | $ 0.33 |

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**10. Stock Options and Warrants (continued)**

The following table summarizes information about options at December 31, 2009:

| 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 |
| 1,019,000 | $ 0.33 | 4.78 | $ 5,425 | 962,750 | $ 0.34 | 4.53 | $ 1,423 |

Nonvested stock awards as of December 31, 2009 and changes during the year ended December 31, 2009, were as follows:

| | Nonvested | |
|---|---|---|
| | Number of shares | Weighted average grant date fair value |
| Balance at December 31, 2008 | 46,000 | $ 0.14 |
| Granted | 37,000 | 0.05 |
| Vested | 25,250 | 0.14 |
| Expired before vesting | 1,500 | 0.20 |
| Balance at December 31, 2009 | 56,250 | 0.08 |

As of December 31, 2009 and 2008, unrecognized compensation cost associated with non-vested share based employee and non-employee compensation totaled $1,267 and $2,901, respectively, which is expected to be recognized over a weighted average period of 6 months and 7 months, respectively.

**INFORMATION ANALYSIS INCORPORATED**

**NOTES TO FINANCIAL STATEMENT (Continued)**

**10. Stock Options and Warrants (continued)**

***Warrants***

The Board of Directors may also grant warrants to directors, employees and others. There were no warrants issued in 2009 or 2008. There were no warrants exercised in 2009 or in 2008. As of December 31, 2009 and 2008, outstanding warrants were 12,000, all of which expire within 1 year. The purchase price for shares issued upon exercise of these warrants is $0.01 per share. These warrants are immediately exercisable.

**11. Earnings Per Share**

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, except for periods when the Company reports a net loss because the inclusion of such items would be antidilutive.

The following is a reconciliation of the amounts used in calculating basic and diluted net (loss) income per common share.

| | Net Income (loss) | Shares | Per Share Amount |
|---|---|---|---|
| Basic net income per common share for the year ended December 31, 2009: | | | |
| Income available to common stockholders | $ 164,173 | 11,196,760 | $ 0.01 |
| Effect of dilutive stock options | | 105 | |
| Effect of dilutive warrants | | 11,040 | |
| Diluted net income per common share for the year ended December 31, 2009: | $ 164,173 | 11,207,905 | $ 0.01 |
| Basic net loss per common share for the year ended December 31, 2008: | | | |
| Income available to common stockholders | $ (371,390) | 11,196,760 | $ (0.03) |
| Effect of dilutive stock options and warrants | | | |
| Diluted net loss per common share for the year ended December 31, 2008: | $ (371,390) | 11,196,760 | $ (0.03) |

**Item 9A(T). Controls and Procedures.**
***Evaluation of Disclosure Controls and Procedures***

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

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

***Management s Annual Report on Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting. A company s internal control over financial reporting is a process designed 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of the Evaluation Date, based on the criteria for effective internal control described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management concluded that our internal control over financial reporting was effective as of the Evaluation Date.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management s report in this Annual Report.

This report shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of Information Analysis Incorporated, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## PART III

**Item 10. Directors, Executive Officers and Corporate Governance.**

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)

**Item 11. Executive Compensation.**

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)

**Item 14. Principal Accounting Fees and Services.**

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934.)

## PART IV

**Item 15. Exhibits, Financial Statement Schedules.**

(a) (1) Financial Statements

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INFORMATION ANALYSIS INCORPORATED
(Registrant)

By: /s/ SANDOR ROSENBERG
**Sandor Rosenberg, President**
**March 31, 2010**

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Sandor Rosenberg and Richard S. DeRose, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| By /s/ SANDOR ROSENBERG<br>**Sandor Rosenberg** | Chairman of the Board, Chief Executive Officer and President | March 31, 2010 |
| By /s/ CHARLES A. MAY, JR.<br>**Charles A. May** | Director | March 31, 2010 |
| By /s/ BONNIE K. WACHTEL<br>**Bonnie K. Wachtel** | Director | March 31, 2010 |
| By /s/ JAMES D. WESTER<br>**James D. Wester** | Director | March 31, 2010 |
| By /s/ RICHARD S. DEROSE<br>**Richard S. DeRose** | Chief Financial Officer, Secretary and Treasurer | March 31, 2010 |
| By /s/ MATTHEW T. SANDS<br>**Matthew T. Sands** | Controller | March 31, 2010 |

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**Information Analysis Incorporated** 2009 Annual Report on Form 10-K

***Exhibit Index***

**Exhibit**

| **No.** | **Description** | **Location** |
|---|---|---|
| 3.1 | Amended and Restated Articles of Incorporation effective March 18, 1997 | Incorporated by reference from the Registrant s Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997 |
| 3.2 | Articles of Amendment to the Articles of Incorporation | Incorporated by reference from the Registrant s Form 10-KSB/A for the fiscal year ending December 31, 1997 and filed on March 30, 1998 |
| 3.3 | Amended By-Laws of the Company | Incorporated by reference from the Registrant s Form S-18 dated November 20, 1986<br><br>(Commission File No. 33-9390). |
| 4.1 | Copy of Stock Certificate | Incorporated by reference from the Registrant s Form 10-KSB/A for the fiscal year ending December 31, 1997 and filed on March 30, 1998 |
| 10.1 | Office Lease for 18,280 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030. | Incorporated by reference from the Registrant s Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997 |
| 10.2 | Company s 401(k) Profit Sharing Plan through Aetna Life Insurance and Annuity Company (now ING). | Incorporated by reference from the Registrant s Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997 |
| 10.3 | 1996 Stock Option Plan | Incorporated by reference from the Registrant s Form S-8 filed on June 25, 1996 |
| 10.4 | Modification of Office Lease to 12,345 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030 | Incorporated by reference from the Registrant s Form 10-QSB for the period ended March 31, 2001 and filed on May 11, 2001 |
| 10.5 | Second Modification of Lease, dated February 10, 2004, to 4,434 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030 | Incorporated by reference from the Registrant s Form 10-KSB for the period ended December 31, 2003, and filed on March 30, 2004 |
| 10.6 | Termination and/or change in control arrangement for Richard S. DeRose dated June 18, 1997 | Incorporated by reference from the Registrant s Form 10-KSB for the year ended December 31, 2004, and filed on March 30, 2005 |
| 10.7 | Line of Credit Agreement with TD Bank, N.A. (formerly Commerce Bank, N.A.) | Incorporated by reference from the Registrant s Form 10-KSB for the year ended December 31, 2005, and filed on March 31, 2006 |
| 10.8 | Third Modification of Lease, dated November 8, 2006, to extend term of lease three years. | Incorporated by reference from the Registrant s Form 10-KSB for the period ended December 31, 2006, and filed on April 2, 2007 |
| 10.9 | Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated July 18, 2008. | Incorporated by reference from the Registrant s Form 10-KSB for the period ended December 31, 2008, and filed on March 31, 2009 |

| | | |
|---|---|---|
| 10.10 | Fourth Modification of Lease, dated November 12, 2009, to extend term of lease three years. | Filed with this Form 10-K |
| 10.11 | Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated December 29, 2009. | Filed with this Form 10-K |
| 23.1 | Consent of Independent Registered Public Accounting Firm, Reznick Group, P.C. | Filed with this Form 10-K |
| 31.1 | Rule 13a-14(a) / 15a-14(a) Certification by Chief Executive Officer | Filed with this Form 10-K |
| 31.2 | Rule 13a-14(a) / 15a-14(a) Certification by Chief Financial Officer | Filed with this Form 10-K |

| Exhibit No. | Description | Location |
|---|---|---|
| 32.1 | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed with this Form 10-K |
| 32.2 | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed with this Form 10-K |