INFORMATION ANALYSIS INC
Form 10-K
March 30, 2012

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

o 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

(703) 383-3000
(Address including zip code, and telephone number, including area code, of principal executive offices)

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 o No þ

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

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 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

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

The aggregate market value of the common stock held by nonaffiliates of the registrant based on the closing price of the registrant's common stock on June 30, 2011, was approximately $1,667,795. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

As of March 27, 2012, there were 11,196,760 outstanding shares of the registrant's common stock.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for the June 12, 2012 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 into Part III of this 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:

changes in the way the US government contracts with businesses and changes in the budgetary priorities;
terms specific to US government contracts;
our failure to keep pace with a changing technological environment;
intense competition from other companies;
inaccuracy in our estimates of the cost of services and the timeline for completion of contracts;
non-performance by our subcontractors and suppliers;
our failure to adequately integrate businesses we may acquire; and
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,” “expe “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “intends,” “potential” and similar expressions intended to 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.

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PART I

ITEM 1. BUSINESS.

Overview of Market

Founded in 1979, Information Analysis Incorporated, to which we sometimes refer 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, but not limited to, 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. At present, 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, including electronic forms conversions, for various 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 exact size of this segment, but even a 5% share of this market would represent hundreds of prospective customers with meaningful opportunities.

The web solutions market continues to be one of the fastest growing segments of the information technology consulting business as individuals, small companies, large companies, and government agencies (state and federal) 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 developing such expertise, typically associated with larger companies, both internally and through strategic business relationships with leading-edge software firms.

These types of applications, including innovative solutions in the Business Intelligence and Cybersecurity arenas, should become more prominent in the future as web-based solutions continue to evolve. The need for commercial and public sector managers to access and combine data from disparate sources (internally and externally) for timely decision-making is becoming ever more acute in our fast paced digitally driven environment. The volume of data available to companies and agencies is growing at an exponential rate, as well as the need to protect that data and the systems that house them. This convergence of the need for instantaneous reliable access to real-time data via the web, combined with protecting such information from tampering and theft by unauthorized sources, should result in increased opportunities for IAI's evolving capability skill set.

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.

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 use of our proprietary ICONS legacy conversion tools suite 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.

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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 2012 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 recognize the need to enhance our service and product capabilities as a means of expanding our business base and maintaining growth in the future. To that end, beginning in late 2010 and in continuing in 2011, we have aggressively pursued strategic business relationships with certain leading-edge technology firms in our local area that have developed unique and innovative software-based products and services. These new business areas include, but are not limited to, cybersecurity, real-time business intelligence, mobile applications and SharePoint developments. Where appropriate, we have entered into teaming arrangements or product reseller agreements with certain of these firms. These products and services are synergistic to our present business strategy and also allow us to expand into new business areas, both within the federal government and commercial sectors, without the expenditure of significant technical development dollars. Our partners benefit by our potential to leverage their new technology developments into our existing client base, as well as utilize our expertise and credibility in developing applications around their inventive products.

Our management will continue to explore ways to expand our current market spaces and develop 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 2012 and beyond.

Backlog

As of December 31, 2011, we estimated our backlog at approximately $14.3 million over the next three years, of which $3.7 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, business intelligence and cybersecurity, and general 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.

Government 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 our proprietary ICONS legacy code conversion tools suite 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, 2011, we employed 23 full-time and 5 part-time individuals. In addition, we maintained subcontractor relationships with companies and individuals that add 13 individuals for professional information technology services. Approximately 95% 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.

Changes in the funding priorities of the US government, and changes in the way the US government contracts with businesses, 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 funding priorities of the US government may materially and adversely affect us if funding is cut or shifted away from the information technology services that we are equipped to provide. Additionally, changes in the way the government awards contracts may create a disadvantage for us to compete in certain markets.

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 either “for convenience” (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if a default occurs by failing to perform under the contract. If the federal government terminates a contract 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 based upon a 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.

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.

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.

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.

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.

We are dependent upon third-party software and software maintenance suppliers, making us vulnerable to supply shortages and lapses in support.

We obtain software licenses and related software maintenance contracts for resale from third-party suppliers. Any delay in our suppliers' fulfillment of our orders could impair our ability to deliver products and maintenance to customers and, accordingly, could have a material adverse effect on business, results of operations, financial condition, and reputation.

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 to purchase our common stock could substantially dilute shareholders' investments.

Under the terms of existing 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 options, 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.

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, 2011 Quarter Ended:				Fiscal Year Ended December 31, 2010 Quarter Ended:			
	3/31/11	6/30/11	9/30/11	12/31/11	3/31/10	6/30/10	9/30/10	12/31/10
High	$0.19	$0.20	$0.22	$0.24	$0.20	$0.26	$0.25	$0.20
Low	$0.15	$0.15	$0.17	$0.13	$0.15	$0.16	$0.06	$0.13

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, 2011, we had 113 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 outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders1,2	1,003,000	$ 0.31	358,000
Equity compensation plans not approved by security holders	-	-	-
Total	1,003,000	$ 0.31	358,000

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.
2The 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 2011 our sales and marketing efforts were focused to capitalize on our expertise in these areas – electronic forms software, conversion, modernization, accessibility, 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 2011 we had net income of $153,401. Our stockholders' equity was $2,040,189 at December 31, 2011. Our gross margins improved by $56,465 on increased revenue of $960,833. The revenue increase is due to increases in sales of third-party software products and related maintenance contracts. Gross margins as a percentage of sales were consistent with 2010 for both professional services and software sales. Our expenses related to selling, general and administrative infrastructure increased 1.5% in 2011, but fell as a percentage of sales. Commission expense increased 3.0% due to the increases in software sales.

Cash and cash equivalents decreased $687,151, primarily due to one large outstanding product-related receivable for which we had already paid $1 million toward the total cost to our supplier. We were able to maintain and to grow our investment in interest bearing accounts, and we were able to operate throughout 2011 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, 2011		December 31, 2010	
Revenue	100.0	%	100.0	%
Cost of Goods Sold	68.8	%	65.2	%
Gross Profit	31.2	%	34.8	%
Operating Expenses				
Selling, general and administrative	(20.0	%)	(22.5	%)
Commissions on sales	(9.3	%)	(10.3	%)
Income from operations	1.9	%	2.0	%
Other income	0.1	%	0.1	%
Income before income taxes	2.0	%	2.1	%
Provision for income taxes	(0.0	%)	(0.0	%)
Net income	2.0	%	2.1	%

2011 Compared to 2010

Revenue. Revenue for 2011 increased $961,000, or 14.0%, to $7.82 million from $6.86 million in 2010. Revenue from professional services fees decreased $155,000, or 3.2%, to $4.70 million in 2011 from $4.86 million in 2010. Revenue from software sales increased $1.12 million, or 55.7%, to $3.12 million in 2011 from $2.00 million in 2010. Revenue from software sales comprised 39.9% of total sales in 2011, compared to 29.2% of total sales in 2010. Our software sales increases were due to new product and maintenance contract sales.

Gross Profit. Gross profit increased $56,000, or 2.4% in 2011 versus 2010. Gross profit as a percentage of revenue decreased to 31.20% of revenue in 2011 from 34.8% of revenue in 2010. The decrease in gross profit as a percentage of revenue is due to the change in the ratio of professional fees to software sales. Gross profit from professional fees was 42.3% in 2011 on 60.1% of total sales while gross profit from software sales was 14.6% on 39.9% of total sales. In 2010, gross profit from professional fees was 43.1% on 70.8% of total sales while gross profit from software sales was 14.6% on 29.2% of total sales. Professional services gross margin was $1.99 million, or 42.3% of revenue in 2011, compared to $2.09 million, or 43.1% of revenue in 2010. Software sales gross margin increased from $293,000 in 2010 to $456,000 in 2011. Gross margin as a percentage of revenue for software sales remained constant at 14.6% in both 2011 and 2010.

Selling, General and Administrative. Selling, general and administrative expense for 2011 increased $23,000 to $1.56 million, or 20.0% of revenue, from $1.54 million, or 22.5% of revenue, in 2010. We were able to limit this expense increase to 1.5% versus a revenue increase of 14.0%. The costs related to our current selling, general, and administrative infrastructure do not vary significantly with fluctuations in revenue-producing activity.

Commission Expense. Commission expense in 2011 was $729,000, or 9.3% of revenue, versus $708,000, or 10.3% in 2010. Commission expenses vary with income generated from contracts sold by our commission-based sales associates.

Recent Accounting Pronouncements

ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” In May 2011, the FASB issued ASU 2011-04 to allow for common fair value measurement and disclosure requirements in GAAP and IFRS. Consequently, the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements has changed. FASB does not intend for the changes to result in a change in the application of the requirements in the fair value standard. ASU 2011-04 clarifies the FASB’s intent about the application of existing fair value measurement requirements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We do not expect ASU 2011-04 to have a material impact on our financial statements and processes.

Liquidity and Capital Resources

Our beginning cash and cash equivalents balance, when combined with our cash flow from operations, were sufficient to provide financing for our operations. For 2011, net cash used by operating, investing and financing activities was $687,151. Our net cash used of $687,151, when subtracted from a beginning balance of $1,968,077 yielded cash and cash equivalents of $1,280,926 at December 31, 2011. Our accounts receivable balances increased $2,117,844, and our accounts payable balances increased $921,651, primarily due to outstanding product-related invoices at year end. We had no non-current liabilities at December 31, 2011.

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, 2012. As of December 31, 2011, no amounts were outstanding under this line of credit. We did not borrow against this line of credit in 2011.

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

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

We have no material commitments for capital expenditures.

Contractual Obligations

		Payments due by period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations					
Lease of Principal Offices	135,443	95,263	40,180	-	-
Total	$135,443	$95,263	$40,180	$-	$-

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.

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.

In October 2009, the FASB amended the accounting standards for certain multiple deliverable revenue arrangements to: 1)provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; 2) require an entity to allocate revenue in an arrangement using best estimated selling price ("BESP") of deliverables if a vendor does not have vendor-specific objective evidence (“VSOE”) of selling price or third-party evidence ("TPE") of selling price; and 3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. For our multiple-element arrangements, we determine the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price.

In October 2009, the FASB amended the accounting standards for certain multiple deliverable revenue arrangements to: 1)provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; 2) require an entity to allocate revenue in an arrangement using best estimated selling price ("BESP") of deliverables if a vendor does not have VSOE of selling price or third-party evidence ("TPE") of selling price; and 3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

We elected to adopt this accounting guidance at the beginning of our first quarter of fiscal 2011 on a prospective basis for applicable transactions originating or materially modified beginning January 1, 2011. The application of these new accounting standards, if applied in the same manner to the year ended December 31, 2010, would not have had a material impact on total net revenues for that fiscal year.

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.

Report of Independent Registered Public Accounting Firm	F-1
Balance Sheets as of December 31, 2011 and 2010	F-2
Statements of Operations for the years ended December 31, 2011 and 2010	F-3
Statements of Changes in Stockholders' Equity for the years ended December 31, 2011 and 2010	F-4
Statements of Cash Flows for the years ended December 31, 2011 and 2010	F-5
Notes to Financial Statements	F-6

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, 2011 and 2010, 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, 2011 and 2010, 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 30, 2012

INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$1,280,926	$1,968,077
Accounts receivable, net	2,889,658	771,814
Prepaid expenses	787,290	570,948
Note receivable, current	6,668	6,438
Total current assets	4,964,542	3,317,277
Fixed assets, net of accumulated depreciation		
and amortization of $264,837 and $582,854	40,440	35,705
Note receivable, long-term	4,287	10,955
Other assets	6,281	6,281
Total assets	$5,015,550	$3,370,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$998,160	$76,509
Deferred revenue	939,783	652,591
Commissions payable	679,498	446,759
Accrued payroll and related liabilities	247,885	245,518
Other accrued liabilities	107,235	68,759
Taxes payable	2,800	-
Total current liabilities	2,975,361	1,490,136
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, 2011 and 2010	128,393	128,393
Additional paid-in capital	14,574,128	14,567,422
Accumulated deficit	(11,732,121)	(11,885,522)
Treasury stock, 1,642,616 shares at cost at December 31, 2011 and 2010	(930,211)	(930,211)
Total stockholders' equity	2,040,189	1,880,082
Total liabilities and stockholders' equity	$5,015,550	$3,370,218

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF OPERATIONS

	For the years ended December 31,	
	2011	2010
Sales		
Professional fees	$4,700,679	$4,855,760
Software sales	3,120,096	2,004,182
Total sales	7,820,775	6,859,942
Cost of sales		
Cost of professional fees	2,714,118	2,763,416
Cost of software sales	2,664,403	1,710,737
Total cost of sales	5,378,521	4,474,153
Gross profit	2,442,254	2,385,789
Selling, general and administrative expenses	1,564,370	1,540,903
Commissions on sales	729,075	707,959
Income from operations	148,809	136,927
Other income	7,392	9,535
Income before provision for income taxes	156,201	146,462
Provision for income taxes	2,800	--
Net income	$153,401	$146,462
Earnings per common share - basic	$0.01	$0.01
Earnings per common share – diluted	$0.01	$0.01
Weighted average common shares outstanding		
Basic	11,196,760	11,196,760
Diluted	11,224,410	11,211,024

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, 2009	12,839,376	$128,393	$14,553,386	$(12,031,984)	$(930,211)	$1,719,584
Net Income	-	-	-	146,462	-	146,462
Stock option compensation	-	-	14,036	-	-	14,036
Balances, December 31, 2010	12,839,376	$128,393	$14,567,422	$(11,885,522)	$(930,211)	$1,880,082
Net Income	-	-	-	153,401	-	153,401
Stock option compensation	-	-	6,706	-	-	6,706
Balances, December 31, 2011	12,839,376	$128,393	$14,574,128	$(11,732,121)	$(930,211)	$2,040,189

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS

	For the years ended December 31, 2011	2010
Cash flows from operating activities:		
Net income	$153,401	$146,462
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	19,464	22,908
Stock option compensation	6,706	14,036
Bad debt expense	52,376	13,257
Changes in operating assets and liabilities		
Accounts receivable	(2,170,220)	155,135
Other receivables and prepaid expenses	(216,342)	117,966
Accounts payable and accrued expenses	962,494	(38,501)
Deferred revenue	287,192	(126,776)
Commissions payable	232,739	224,658
Income taxes payable	2,800	--
Net cash (used in) provided by operating activities	(669,390)	529,145
Cash flows from investing activities:		
Acquisition of furniture and equipment	(24,199)	(22,179)
Net cash used in investing activities	(24,199)	(22,179)
Cash flows from financing activities:		
Employee loan repayment (loan), net	6,438	(17,393)
Net cash provided by (used in) investing activities	6,438	(17,393)
Net (decrease) increase in cash and cash equivalents	(687,151)	489,573
Cash and cash equivalents, beginning of the year	1,968,077	1,478,504
Cash and cash equivalents, end of the year	$1,280,926	$1,968,077
Supplemental cash flow information		
Interest paid	$-	$-
Income taxes paid	$-	$-

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 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 STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Sales of third party software products and maintenance, such as Adobe and Micro Focus products are reported on a gross basis with the Company as a principal. 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.

For software and software-related multiple element arrangements, the Company must: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine the fair value of each undelivered element using vendor-specific objective evidence ("VSOE"), and (4) allocate the total price among the various elements. Changes in assumptions or judgments or changes to the elements in a software arrangement could cause a material increase or decrease in the amount of revenue that the Company reports in a particular period.

The Company determines VSOE for each element based on historical stand-alone sales to third parties or from the stated renewal rate for the elements contained in the initial arrangement. The Company has established VSOE for its third-party software maintenance and support services.

In October 2009, the FASB amended the accounting standards for certain multiple deliverable revenue arrangements to: 1)provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; 2) require an entity to allocate revenue in an arrangement using best estimated selling price ("BESP") of deliverables if a vendor does not have VSOE of selling price or third-party evidence ("TPE") of selling price; and 3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The Company elected to adopt this accounting guidance at the beginning of our first quarter of fiscal 2011 on a prospective basis for applicable transactions originating or materially modified beginning January 1, 2011. The application of these new accounting standards, if applied in the same manner to the year ended December 31, 2010, would not have had a material impact on total net revenues for that fiscal year.

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.

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INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Segment Reporting

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.

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 $141,721 and $22,152 at December 31, 2011 and 2010, 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.

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation

At December 31, 2011, the Company had the stock-based compensation plans described in Note 10 below. Total compensation expense related to these plans was $6,706 and $14,036 for the years ended December 31, 2011 and 2010, respectively, of which $0 and $5,250, 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. When stock-based compensation is awarded to employees, the expense is recognized ratably over the vesting period. When stock-based compensation is awarded to non-employees, the expense is recognized immediately.

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.

Recent Accounting Pronouncements

ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." In May 2011, the FASB issued ASU 2011-04 to allow for common fair value measurement and disclosure requirements in GAAP and IFRS. Consequently, the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements has changed. FASB does not intend for the changes to result in a change in the application of the requirements in the fair value standard. ASU 2011-04 clarifies the FASB's intent about the application of existing fair value measurement requirements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect ASU 2011-04 to have a material impact on its financial statements and processes.

Reclassifications

Certain prior year balances have been reclassified to conform to the presentation of the current year.

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.

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Fair 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 value, unless disclosed otherwise in the accompanying notes.

Subsequent Events

The Company has evaluated the period from December 31, 2011, the date of the financial statements, through the date of the issuance and filing of the financial statements, and has determined that no material subsequent events have occurred that would affect the information presented in these financial statements or require additional disclosure.

2. Receivables

Accounts receivable at December 31, 2011 and 2010, consist of the following:

	2011	2010
Billed-federal government	$ 2,961,279	$ 651,508
Billed-commercial and other	70,100	142,458
Total billed	3,031,379	793,966
Unbilled	-	-
Less: allowance for doubtful accounts	(141,721)	(22,152)
Accounts receivable, net	$ 2,889,658	$ 771,814

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, 2011 and 2010, consist of the following:

	2011	2010
Furniture and equipment	$ 93,391	$ 180,822
Computer equipment and software	211,886	437,737
Subtotal	305,277	618,559
Less: accumulated depreciation and amortization	(264,837)	(582,854)
Total	$ 40,440	$ 37,705

Depreciation expense for the years ended December 31, 2011 and 2010, were $19,464 and $22,908, respectively. During 2011, the Company disposed of fully-depreciated furniture and equipment assets with original

base costs of $87,431 and no net book value, and computer equipment and software assets with original base cost of $250,050 and no net book value, for no gain.

4. Other Accrued Liabilities

Other accrued liabilities at December 31, 2011 and 2010, consist of the following:

	2011	2010
Accrued expenses	84,302	52,826
Bonuses payable	17,000	10,000
Unclaimed property	5,933	5,933
Total other accrued liabilities	$ 107,235	$ 68,759

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. The credit agreement includes an interest rate indexed to 3.75% above the British Bankers' Association London Interbank Offered Rate (BBA LIBOR). The line of credit was renewed on November 30, 2011, and next expires on December 1, 2012. 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, 2011, was 4.02%. At December 31, 2010, the effective rate was 4.01%.

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

5. Revolving Line of Credit (continued)

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, 2011 or 2010.

6. Commitments and Contingencies

Operating Leases

The Company leases facilities under long-term operating lease agreements through May 2013. Rent expense was $88,894 and $97,678 for the years ended December 31, 2011 and 2010, respectively.

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

Year ending December 31,	2012	95,262
2013		40,181
Total minimum rent payments		$135,443

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.

7. Income Taxes

The tax effects of significant temporary differences representing deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010, are as follows:

	2011	2010
Deferred tax assets (liabilities):		
Net operating loss carryforward	$ 5,559,500	$ 5,751,200
Accrued vacation and commissions	261,800	175,900
Fixed assets	46,100	47,700
Allowance for doubtful accounts	53,400	8,400
AMT tax credit carryforward	9,500	7,000
Other	8,200	9,600
Subtotal	5,938,500	5,999,800
Valuation allowance	(5,938,500)	(5,999,800)
Total	$ -	$ -

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

7. Income Taxes (continued)

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

	December 31,	
	2011	2010
Income before taxes	$ 156,201	$ 146,462
Income tax expense (benefit) on above amount at federal statutory rate	53,100	49,800
State income tax expense (benefit), net of federal expense (benefit)	6,200	5,800
Permanent differences	5,600	5,500
Other	(800)	(500)
Change in valuation allowance	(61,300)	(60,300)
Provision for income taxes	$ 2,800	$ 300

Income tax for the years ended December 31, 2011 and 2010 consists of the following:

	December 31,	
Current income taxes	2011	2010
Federal	$ 179,000	$ 144,000
State	21,100	16,900
Alternative minimum tax	2,800	400
Benefit from utilization of net operating losses	(200,100)	(160,900)
	2,800	400
Deferred taxes	-	-
	$ 2,800	$ 400

The Company has recognized a valuation allowance to the full extent of its currently available 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 $14.6 million, which expire, if unused, between the years 2012 and 2028.

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,as the deferred tax asset is fully offset by a valuation allowance, the Company has not yet conducted a Section 382 study to determine the extent of any such limitations.

The Company has analyzed its income tax positions using the criteria required by financial accounting standards and concluded that as of December 31, 2011 and 2010, 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.

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

8. Major Customers and Major Suppliers

The Company's prime contracts and subcontracts with agencies of the federal government accounted for 89% and 90% of the Company's revenues during 2011 and 2010, respectively. The Company has prime contracts with one federal government agency that accounted for 48% and 31% of the Company's 2011 and 2010 revenue, respectively. Also, the company has subcontracts under another company for which work is done for a federal agency that accounts for 16% of the Company's 2011 revenue and 17% of the 2010 revenue.

The Company sold third party software and maintenance contracts under agreements with two major suppliers. These sales accounted for 40% of total revenue in 2011 and 29% of revenue in 2010. Resale of third party software is recognized upon delivery. Resale of third party maintenance is recognized ratably over the maintenance period. 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 2011 and in 2010, 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 2011 or 2010. Expenses for matching contributions for the years ended December 31, 2011 and 2010 were $20,303 and $16,707, respectively. The balance of funds forfeited by former employees from unvested employer matching contribution accounts may be used to offset current and future employer matching contributions.

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 such options vest over periods of six months to two years. The fair values of option awards granted in 2011 and 2010 were estimated using the Black-Sholes option pricing model under the following assumptions:

	2011	2010
Risk free interest rate	1.65% – 2.30%	1.17% – 3.66%

Dividend yield	0%	0%
Expected term	5 years	5-10 years
Expected volatility	61.7 – 61.9%	60.1 – 97.6%

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

10. Stock Options and Warrants (continued)

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, 2011 and 2010, were nineteen months and eleven months, respectively. 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 411,000 and 565,500 unexpired exercisable options remaining from the 1996 Plan at December 31, 2011 and 2010, respectively.

The status of the options issued under the foregoing option plans as of December 31, 2011, and changes during the years ended December 31, 2011 and 2010, were as follows:

	Options outstanding	
	Number of shares	Weighted average price per share
Balance at December 31, 2009	1,019,000	$ 0.33
Options granted	158,000	0.18
Options exercised, expired or forfeited	58,000	0.42
Balance at December 31, 2010	1,119,000	0.30
Options granted	45,500	0.17
Options exercised, expired or forfeited	161,500	0.20
Balance at December 31, 2011	1,003,000	$ 0.31

The following table summarizes information about options at December 31, 2011:

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

1,003,000	$0.31	4.64	$ 3,465	943,000	$0.32	4.36	$ 3,275

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

10. Stock Options and Warrants (continued)

Nonvested stock awards as of December 31, 2011 and changes during the year ended December 31, 2011, were as follows:

	Nonvested	
	Number of shares	Weighted average grant date fair value
Balance at December 31, 2010	140,250	$ 0.09
Granted	45,500	0.09
Vested	125,750	0.09
Balance at December 31, 2011	60,000	0.09

As of December 31, 2011 and 2010, unrecognized compensation cost associated with non-vested share based employee and non-employee compensation totaled $2,225 and $4,915, respectively, which is expected to be recognized over a weighted average period of 7 months and 3 months, respectively.

Warrants

The Board of Directors may also grant warrants to directors, employees and others. There were no warrants issued nor exercised during the years ended December 31, 2011 and 2010. As of December 31, 2011 and 2010, there were no outstanding warrants.

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 income per common share.

	Net Income	Shares	Per Share Amount
Basic net income per common share for the year ended December 31, 2011:			
Income available to common stockholders	$ 153,401	11,196,760	$ 0.01
Effect of dilutive stock options		27,650	-
Diluted net income per common share for the year ended December 31, 2011:	$ 153,401	11,224,410	$ 0.01

Basic net income per common share for the year ended December 31, 2010:				
Income available to common stockholders	$ 146,462	11,196,760	$	0.01
Effect of dilutive stock options		14,264		-
Diluted net income per common share for the year ended December 31, 2010:	$ 146,462	11,211,024	$	0.01

ITEM 9A. 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, 2011 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 our independent registered public accounting firm.

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

(as presented in Item 8 of this Annual Report)	Page
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Balance Sheets as of December 31, 2011 and 2010	F-2
Statements of Operations for the years ended December 31, 2011 and 2010	F-3
Statements of Changes in Stockholders' Equity for the years ended December 31, 2011 and 2010	F-4
Statements of Cash Flows for the years ended December 31, 2011 and 2010	F-5
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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)

March 30, 2012 By: /s/ Sandor Rosenberg
Sandor Rosenberg, President

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
/s/ Sandor Rosenberg Sandor Rosenberg	Chairman of the Board, Chief Executive Officer and President	March 30, 2012
/s/ Charles A. May, Jr. Charles A. May	Director	March 30, 2012
/s/ Bonnie K. Wachtel Bonnie K. Wachtel	Director	March 30, 2012
/s/ James D. Wester James D. Wester	Director	March 30, 2012
/s/ Richard S. DeRose Richard S. DeRose	Chief Financial Officer, Secretary and Treasurer	March 30, 2012
/s/ Matthew T. Sands Matthew T. Sands	Controller	March 30, 2012

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Information Analysis Incorporated 2011 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 (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-K 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.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2009, and filed on March 31, 2010
10.11		

	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated December 29, 2009.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2009, and filed on March 31, 2010
10.12	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated December 13, 2010.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2010, and filed on March 31, 2011

Exhibit No.	Description	Location
10.13	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated November 30, 2011.	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
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