INFORMATION ANALYSIS INC
Form 10-K
April 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Form 10-K

(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-22405

Information Analysis Incorporated
(Exact name of registrant as specified in its charter)

Virginia	54-1167364
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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 No

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 No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (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 No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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.

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

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

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

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

The aggregate market value of the 7,146,068 shares of common stock held by non-affiliates of the registrant based on the closing price of the registrant's common stock on June 30, 2018, was approximately $2,572,584. 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 29, 2019, there were 11,201,760 outstanding shares of the registrant's common stock.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for the 2019 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 ("SEC"). These risks include, among others, the following:

changes in the way the U.S. federal government contracts with businesses and changes in its budgetary priorities;

terms specific to U.S. federal government contracts;

our failure to keep pace with a changing technological environment;

intense competition from other companies;

inaccuracy in our estimates of the cost of services and the timeline for completion of contracts;

non-performance by our subcontractors and suppliers; 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, which we sometimes refer to as the Company or IAI, is in the business of developing and maintaining information technology (IT) systems, modernizing client information systems, and performing professional services to government and commercial organizations. Since its inception, we have performed software development and conversion projects for over 100 commercial and government customers including, but not limited to the Department of Agriculture, Department of Defense, Department of Education, Department of Energy, Department of Homeland Security, Department of the Treasury, U.S. Small Business Administration, U.S. Army, U.S. Air Force, Department of Veterans Affairs, Citibank, and General Dynamics Information Technology (formerly Computer Sciences Corporation, CSRA). At present, we primarily apply our technology, services and experience to developing web-based and mobile device solutions (including electronic forms conversions) for various agencies of the federal government, data analytics, and legacy software migration and modernization.

Digital Solutions Marketplace

The web, digital content, and cloud solutions market continues to be one of the fastest growing segments of the information technology professional services business as small and large companies, and government agencies (state and federal) expand their presence via cloud implementations and on the Internet. The range of products and services involved in this sector is extensive and therefore, require some specialization for a small company such as IAI to make an impact. Most small web companies are involved in building websites and typically have many short duration projects. More complex web applications generally require knowledge of customers' back-end systems based on mainframe or mid-level computers. Few small companies have the expertise to develop these more sophisticated web applications. We distinguish ourselves among smaller companies by having such expertise, typically associated with larger companies, both internally and through strategic business relationships with leading-edge software firms, such as Adobe Systems.

Given executive level directives to improve outreach to its stakeholders, federal and state government agencies are now empowered to find means of facilitating dissemination of information quickly and efficiently. Government requirements are unique in 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 competently address the forms issue. Adobe electronic forms related products resold and supported by IAI as a solutions partner are the predominant forms software in the federal government.

Over the last few years there has been a pronounced emphasis within the U.S. federal government to employ more form data entry and citizen communication using mobile devices such as iPhones, iPads, and mobile devices employing the Android operating system. Working with Adobe's latest version of Adobe Experience Manager (AEM), we have been able to build applications for several federal clients employing mobile devices, as well as converting paper-based forms into "dynamic" or "adaptive" forms.

Legacy Migration and Modernization

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 and include introduction of new hardware systems, employing advanced software languages, and utilization of the Internet or Intranet to achieve desired efficiencies. All of these options are typically very expensive and time consuming because they require starting all over in defining requirements, designing structures, programming, and testing.

Opportunities for our modernization expertise continue to exist as government agencies and private companies are being driven for various reasons, including increased funding by federal and state legislatures, 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 foreseeable future 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 enterprise 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. IAI, in conjunction with strategic partners, such as Micro Focus and Software Mining, offers its own conversion tool set and those of its partners in addressing this need and positioning us to uniquely deliver successful results. It is difficult to determine the exact size of this segment, but even a minor share of this market would represent significant prospective customers with meaningful opportunities. In December 2016, we were notified that IAI was one of a number of subcontractors that were part of a prime contractor's team that was awarded a contract with the Small Business Administration's (SBA) 504 loan program. Under the contract, IAI personnel provide analysis and modernization activities to the SBA program platform. IAI personnel worked extensively in calendar year 2017 on their assigned tasks and were significant team contributors to a successful implementation of the modernized application in the first quarter 2018. As a side benefit on this project, IAI recruited a team of exceptional programmers versed in Adobe Cold Fusion technology, which was used extensively on the SBA 504 loan program. This added capability adds to our unique set of capabilities and differentiates us from other modernization companies.

Because of IAI's unique modernization capabilities, IAI has been approached by various companies, some very large, to collaborate on modernization opportunities that are suddenly imminent for a number of federal agencies. We interpret this as a positive sign that our backlog of modernization activities will expand over the next three years.

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Description of Business and Strategy

With the advent of mobile and digital technology applications becoming widespread in everyday life, coupled with government agencies seeking better ways to improve outreach to its stakeholders, we intend to capitalize on our proven expertise in this arena and capture new business opportunities that are likely to arise in the foreseeable future. This includes the conversion of paper-based forms into digitally compatible “dynamic” and “adaptive” forms, as well as developing mobile and Internet based applications that replace cumbersome paper handling processes currently in use by diverse organizations.

We are using the experience we have acquired as an Adobe solutions partner and reseller to help secure engagements for web-based applications requiring forms. The Adobe Experience Manager products have evolved over the years into robust tools that can form the backbone of applications, especially those requiring forms and web content management. We have used this expertise to penetrate a number of federal government clients such as the Internal Revenue Service and Veterans Affairs and build sophisticated web applications at the Department of Homeland Security. One such application, a parking and transit subsidy tool, was cited for award recognition by the American Council for Technology – Industry Advisory Council (ACT-IAC) and Federal Computer Week’s Fed 100 Awards. 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 continue to build this practice over the coming years. In addition, IAI, operating as a prime contractor, has teamed with Adobe Systems to provide AEM Assets govCloud services to DoD’s Defense Security Services and AEM related application consulting to the Defense Finance and Accounting Services.

Concentrating on the niche of electronic forms-related web applications (including securing digital content and documents) through our solutions partner relationship with Adobe AEM products, we have developed a cadre of professionals that can quickly and efficiently develop web applications. We will focus on federal government clients during 2019 and beyond and leverage the Company’s reputation with existing federal customers to penetrate other agencies. We will be able to reference successful projects completed or in development for various components of the Department of Homeland Security, Department of Defense, Department of Veterans Affairs, Federal Mediation and Conciliation Service, Department of Agriculture, Department of Education, General Services Administration, U.S. Army Reserve, and U.S. Air Force Logistics Command.

As a recent example of our capability, IAI was contracted by the US Citizenship and Immigration Services agency (USCIS) to provide technical and design support to complete development of an enhanced Form I-9 (Employment Eligibility Verification) that incorporates drop-down menus, helper text and hover text that embed the instructions into the form, field logic, error messages and form validation into a fillable PDF format. IAI’s successful programming of the enhanced form per our client’s requirements led to the form’s release by the government in September 2017 to the general public as USCIS’s official form for that designated purpose.

In an effort to increase IAI’s profile and visibility in the expanding digital technology marketplace, IAI personnel have actively participated in industry programs such as the Adobe Digital Government Assembly and the Department of Homeland Security’s Government Forms Forum, which bring together senior government officials, technology leaders and information technology leaders interested in advances in digital technology applications. IAI senior staff typically participate in related panel discussions and IAI exhibits its digital related competencies and innovative capabilities to the attendees.

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, over the last several years, we have aggressively pursued strategic business relationships with certain 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, legacy modernization applications and expanded product opportunities. In addition, we have teamed with other local technology firms on proposal submissions to federal government agencies to gain access to Government Wide Acquisition Contracts, such as the Navy's multiple SeaPort NxG contract.

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.

Since the mid-1990’s we have migrated customers, both private firms and government agencies, from older computer languages generally associated with legacy computer systems to more modern languages used with current-day computer system platforms. 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 through strategic relationships 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 jointly participate in 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. As an authorized reseller and installer of the Micro Focus tools, our plan is to derive revenue from software sales and installation services as well as acquire supplementary programming services that typically may 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 use of our proprietary ICONS legacy conversion tools suite and that of our strategic partners 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 both from a technical and business perspective. In addition, our modernization methodology has evolved over time through the successful completion of numerous conversion projects.

Our strategy to exploit the conversion and modernization market is also predicated on continuing to form alliances with large information technology consulting firms who currently maintain the legacy systems for large government agencies and Fortune 1000 companies. These alliances have resulted in significant opportunities in the past and are likely to be important in procuring future business.

Our management will generally 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 or merger with other companies. In any event, IAI will explore the potential of diversified business opportunities and seek targets of acquisition.

We are a small business team member on the Defense Logistics Agency’s (DLA) J6 Enterprise Technical Services (JETS) contract. The DLA JETS contract is a five-year, $6.015B ceiling, base Indefinite Delivery Indefinite Quantity (IDIQ) contract vehicle for a full range of IT services as well as technical and management expertise that supports applications, software, hardware, infrastructure, and systems, across the DLA Enterprise. Additionally, this contract vehicle is available for use by other Department of Defense agencies and organizations.

Certain government contracts related to IAI’s business are now limiting future awards to companies certified under designated quality management systems such as ISO 9001:2015. The ISO 9001 family of quality management systems is designed to help organizations ensure that they meet the needs of customers and other stakeholders while meeting statutory and regulatory requirements related to a product or program. Third-party certification bodies provide independent confirmation that organizations meet the requirements of ISO 9001. In the second half of 2016, IAI developed the processes and procedures required by the ISO 9001:2015 so as to be in compliance with this standard and expand our ability to bid on future contracts that require such certification. We received notice by the independent registrar in June 2017 that IAI passed its Stage Two Audit and was subsequently awarded ISO 9001:2015 certification. IAI continues to undergo periodic internal and external audits as required by regulations to ensure compliance with the ISO quality management standard. IAI has subsequently passed all such follow-on surveillance audits to date.

Backlog

As of December 31, 2018, we estimated our backlog at approximately $13.2 million over the next three years, of which $2.9 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

In the ever-expanding realm of enterprise-based web content management systems, there are a number of small and large companies offering such software products and related consulting services. We believe that the Adobe Experience Manager product suite will continue to dominate in the future against such competition, including offerings such as Microsoft's SharePoint solution. AEM has performed well in the federal marketplace due to its full offering of powerful capabilities such as cloud integration and intuitive customization. Adobe Experience Manager is a solution that optimizes the authoring, management and delivery of digital media and content across owned channels, including Web, mobile, email, print and social communities. In 2018, Gartner named Adobe as a leader in multiple categories of its Magic Quadrant reporting including, but not limited to, Digital Experience Platforms, Web Content Management, Personalization Engines and Content Marketing Platforms.

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.

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. 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.

Government Regulation

We are bound by various rules and regulations promulgated by the federal government and agencies thereunder. We have not experienced undue expense beyond those expenses normally incurred in our ordinary course of business in adhering to such rules and regulations. Since historically most of our business is derived from contracts either directly with the U.S. federal government or as a subcontractor on behalf of U.S. federal government customers, most of our contracts are subject to termination at the election of the government.

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. 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, 2018, we employed twenty-one full-time and three part-time individuals. In addition, we maintained subcontractor relationships with companies and individuals that add eight individuals for professional information technology services. All of our billable 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, proxy statements, 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 U.S. federal government, and changes in the way the U.S. federal government contracts with businesses, may materially and adversely affect our revenue and earnings.

Since the U.S. federal government is our largest customer, both directly and with us as a subcontractor, changes in the funding priorities of the U.S. federal 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.

Temporary or extended budget-related shutdowns of parts of the U.S. federal government may materially and adversely affect our revenue and earnings.

Since the U.S. federal government is our largest customer, both directly and with us as a subcontractor, budget impasses that lead to temporary or extended shutdowns of agencies of the U.S. federal government with which we contract or for which we provide services may adversely affect cash flow and earnings as we carry key personnel during periods in which they are unable to perform work which can be invoiced to the customers.

U.S. federal government contracts are generally subject to terms more favorable to the customer than commercial contracts.

U.S. federal 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 U.S. 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.

The opportunities among our exisiting customers for forms modernization is nearing maturity.

Over the last several years, we have modernized nearly all of the forms for which modernization was needed to meet compliance standards within agencies that have been our key electronic forms customers. While we continue to assist these customers with incremental changes on their internal and external forms, we must position ourselves to find forms business within some new agencies. While we do not anticipate a material effect on our overall results of operations, we may experience a material decline in revenue.

Over half of our revenue is concentrated among a small number of contracts.

The loss of one or a few key contracts that represent large portions of our revenue could materially affect our revenue and our results of operations.

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 lack specific functional 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.

Our software sales are subject to increasing price competition, fluctuation in demand, and our relationships with third-party software and software maintenance suppliers.

Federal government customers are increasingly utilizing systems to accept software bids that make it easier for a larger number of sellers to participate in the bid process, which puts downard pressure on prices. At the same time, we obtain software licenses and related software maintenance contracts for resale from third-party suppliers. Increases in costs from these suppliers may affect our ability to bid winning prices to potential customers, which could have a material efffect on software sales revenue. Also, 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.

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 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.

There is a limited public market for our common stock.

Our common stock is presently quoted on the OTC Markets under the symbol “IAIC”, and the securities are traded through broker-dealers. Because our stock trades on the OTC Markets 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.

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 June 30, 2021. 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.

Item 4. Mine Safety Disclosures

Not applicable.

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:

	2018 Quarter Ended:				2017 Quarter Ended:			
	03/31/18	06/30/18	09/30/18	12/31/18	03/31/17	06/30/17	09/30/17	12/31/17
High	$0.50	$0.47	$0.36	$0.27	$0.26	$0.35	$0.30	$0.42
Low	$0.36	$0.27	$0.21	$0.14	$0.14	$0.17	$0.19	$0.19

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, 2018, we had 104 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	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1,2)	1,376,500	$0.23	627,000
Equity compensation plans not approved by security holders	-	-	-
Totals	1,376,500	$0.23	627,000

1 The Company has a stock incentive plan, which became effective June 1, 2016, and expires April 4, 2026 (the “2016 Plan”). The 2016 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 2016 Plan is 1,000,000. Options granted under the 2016 Plan expire no later than ten years from the date of grant or 90 days after employment ceases, whichever comes first, and vest over periods determined by the Board of Directors.
2 The Company had a stock incentive plan, which became effective May 18, 2006, and expired April 12, 2016 (the “2006 Plan”). The 2006 Plan provided for the granting of equity awards to employees and directors. Options granted 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.

Recent Sales of Unregistered Securities

We had no sales of unregistered securities during 2018 that have not been previously disclosed in a Current Report on Form 8-K or Quarterly Reports on Form 10-Q.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not repurchase any of our equity securities during 2018.

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

In 2018 we incurred a net loss of $51,000, a $297,000 decrease in earnings from our 2017 net income of $246,000. Our stockholders' equity was $1.87 million at December 31, 2018, a decrease of $21,000 from 2017's year-end balance. Our gross profit decreased by $273,000 on a decrease in total revenue of $1.71 million. The revenue decrease includes a $612,000 decrease in fees for professional services from new contracts and a $1.10 million decrease in software sales. Our selling, general and administrative expenses increased $72,000, or 4.3%, in 2018.

Cash and cash equivalents decreased $767,554, due mostly to the decrease in revenue in 2018 and decreasing the balances of accrued expenses and commissions payable. We were able to operate throughout 2018 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,	
	2018	2017
Revenues		
Professional fees	49.2%	47.0%
Software sales	50.8%	53.0%
Total revenues	100.0%	100.0%
Cost of revenues		
Cost of professional fees	26.6%	25.6%
Cost of software sales	49.4%	51.7%
Total cost of revenues	76.0%	77.3%
Gross profit	24.0%	22.7%
Operating expenses		
Selling, general and administrative expenses	19.5%	15.8%
Commissions expense	5.2%	4.7%
(Loss) income from operations	(0.7%)	2.2%
Other income	0.1%	0.1%
(Loss) income before provision for income taxes	(0.6%)	2.3%
Provision for income taxes	0.0%	0.0%
Net (loss) income	(0.6%)	2.3%

2018 Compared to 2017

Revenue. Total revenue for 2018 decreased $1.71 million, or 16.0%, to $8.93 million from $10.64 million in 2017. Revenue from professional services fees decreased $612,000 or 12.2%, to $4.39 million in 2018 from $5.00 million in 2017. The decrease in our revenue from professional services fees is primarily due to the expiration of some contracts and to one particular contract that graduated from development mode to maintenance mode following the successful implementation of a major modernization effort. Revenue from software sales decreased $1.10 million, or 19.4%, to $4.54 million in 2018 from $5.64 million in 2017. Software product and maintenance sales and commissions on registered sales are subject to considerable fluctuation from period to period, based on the product mix sold and customer demand. Revenue from software sales comprised 50.8% of total sales in 2018, compared to 53.0% of total sales in 2017.

Gross Profit. Gross profit decreased $273,000, or 11.3%, in 2018 versus 2017. Gross profit on professional fees revenue is higher than gross profit on software sales, as gross profit on software sales is more dependent on the costs from third-party suppliers, and revenue is generally based on increasingly-competitive bidding in which identical products are offered by all bidders. Overall gross profit as a percentage of revenue increased to 24.0% of revenue in 2018 from 22.7% of revenue in 2017. Gross profit from professional fees for 2018 was $2.01 million, or 45.8% of professional fees revenue, while gross profit for 2017 from professional fees was $2.28 million, or 45.6% of professional fees revenue. For software sales, gross profit percentage increased to 2.9% in 2018 from 2.4% in 2017.

Selling, General and Administrative. Selling, general and administrative expense for 2018 increased $72,000 to $1.75 million, or 19.5% of revenue, from $1.67 million, or 15.7% of revenue, in 2017. The increase is due mostly to increases in non-billable labor cost and the cost of fringe benefits allocated to that labor, stock compensation costs, which increased largely due to the effect of greater stock price volatility on the fair value of awarded incentive stock options, and increased costs of labor allocated to bids and proposals.

Commission Expense. Commission expense in 2018 was $460,000, or 5.2% of revenue, versus $504,000, or 4.7%, in 2017. Commission expenses vary based on income generated from contracts sold by our commission-based sales associates.

Outlook. In January 2017, we began work on a contract that added approximately $2.0 million in revenue in each of 2018 and 2017. While that modernization implementation contract has entered a maintenance mode, it is expected to continue to generate revenue exceeding $1.4 million in 2019, and that relationship is expected to yield additional opportunities within that U.S. federal agency for similar projects. In addition, we will aggressively pursue other professional services opportunities and relationships.

In March 2018, we were awarded a new General Services Administration ("GSA") Multiple Award Schedule contract for Information Technology services. The award has a base period of five years, with the possibility of three five-year option periods. The new GSA schedule contract replaces our previous GSA schedule contract, which expired in November 2018.

The U.S. federal government shutdown that occurred from December 2018 into January 2019 caused the Company to cease work on several federal contracts during that period. In addition, solicitations on other U.S. federal government opportunities were delayed by the shutdown. We have reported losses in each of the last six first calendar quarters. In 2019, we expect that trend to continue, and expect the losses to carry into the second calendar quarter.

Recent Accounting Pronouncements

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

For a discussion of the accounting standards recently adopted or pending adoption and the affect such accounting changes will have on our results of operations, financial position or liquidity, see Note 1 to the financial statements.

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 2018, net cash used in operating and investing activities was $768,000. Our net cash used, when subtracted from a beginning balance of $2.73 million, yielded cash and cash equivalents of $1.96 million at December 31, 2018. Our accounts payable and accrued expenses balances decreased $410,000 due to a combination of the timing of receiving supplier invoices from a 2017 software sales transaction and a reduction in payroll liabilities at year-end from 2017 to 2018. Our commission payable balance decreased $204,746 as existing commissions payable balances were paid out faster than new commissions were earned in 2018. Our contract liabilities balances are largely composed of deferred revenue from sales of software maintenance contracts, for which we recognize the costs and revenue ratably over the life of the maintenance contract. These balances decreased $68,000.

We have a revolving line of credit with a bank providing for demand or short-term borrowings of up to $1,000,000. The line became effective December 20, 2005, and expires on May 31, 2020. As of December 31, 2018, no amounts were outstanding under this line of credit. We did not borrow against this line of credit in 2018.

Based on our current cash position and operating plan, we anticipate that we will be able to meet our cash requirements beyond twelve months from the filing of this Annual Report on Form 10-K.

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.

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 generate revenue from the sales of information technology professional services, sales of third-party software licenses and implementation and training services, sales of third-party support and maintenance contracts based on those software products, and incentive payments received from third-party software suppliers for facilitating sales directly between that supplier and a customer introduced by us. We sell through our direct relationships with end customers and under subcontractor arrangements. On January 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2014-9, Revenue from Contracts with Customers (Topic 606) and its related amendments (collectively known as "ASC 606"). We account for our performance obligations in accordance with ASC 606, and all related interpretations.

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

Identification of the contract, or contracts, with a customer - A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and the parties are committed to perform and, (iii) we determine that collection of substantially all consideration to which we will be entitled in exchange for goods or services that will be transferred is probable based on the customer's intent and ability to pay the promised consideration.

Identification of the performance obligations in the contract - Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, we apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.

Determination of the transaction price - The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer adjusted for estimated variable consideration, if any. We typically estimate the transaction price impact of discounts offered to the customers for early payments on receivables or rebates based on sales target achievements. Constraints are applied when estimating variable considerations based on historical experience where applicable.

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Allocation of the transaction price to the performance obligations in the contract - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. We determine standalone selling price by taking into account available information such as historical selling prices of the performance obligation, geographic location, overall strategic pricing objective, market conditions and internally approved pricing guidelines related to the performance obligations.

Recognition of revenue when, or as, we satisfy performance obligations - We satisfy performance obligations either over time or at a point in time. Revenue is recognized at or over the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

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

To the Board of Directors and Stockholders of
Information Analysis Incorporated

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Information Analysis Incorporated (the “Company”) as of December 31, 2018 and 2017, and the related statements of operations and comprehensive (loss) income, stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United Stated of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CohnReznick LLP

We have served as the Company’s auditor since 2012.

Tysons, Virginia
April 1, 2019

INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS

	December 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$1,963,956	$2,731,510
Accounts receivable, net	652,839	610,182
Prepaid expenses and other current assets	393,533	368,626
Contract assets	-	5,532
Notes receivable	-	1,719
Total current assets	3,010,328	3,717,569
Property and equipment, net of accumulated depreciation and amortization of $294,424 and $284,667	7,147	11,133
Other assets	6,281	6,281
Total assets	$3,023,756	$3,734,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$25,294	$47,658
Commissions payable	508,083	712,829
Contract liabilities	318,552	387,002
Accrued payroll and related liabilities	217,751	275,582
Other accrued liabilities	81,485	411,487
Franchise taxes payable	-	6,400
Total liabilities	1,151,165	1,840,958
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.01 par value, 30,000,000 shares authorized, 12,844,376 shares issued, 11,201,760 shares outstanding as of December 31, 2018 and 2017	128,443	128,443
Additional paid-in capital	14,676,006	14,646,406
Accumulated deficit	(12,001,647)	(11,950,613)
Treasury stock, 1,642,616 shares at cost at December 31, 2018 and 2017	(930,211)	(930,211)
Total stockholders' equity	1,872,591	1,894,025
Total liabilities and stockholders' equity	$3,023,756	$3,734,983

The accompanying notes are an integral part of the financial statements

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

	For the years ended December 31,	
	2018	2017
Revenues		
Professional fees	$4,392,311	$5,003,908
Software sales	4,541,464	5,636,695
Total revenues	8,933,775	10,640,603
Cost of revenues		
Cost of professional fees	2,380,670	2,723,501
Cost of software sales	4,410,267	5,501,673
Total cost of revenues	6,790,937	8,225,174
Gross profit	2,142,838	2,415,429
Selling, general and administrative expenses	1,745,320	1,673,762
Commission expense	459,863	503,893
(Loss) income from operations	(62,345)	237,774
Other income	11,311	8,688
(Loss) income before provision for income taxes	(51,034)	246,462
Provision for income taxes	-	-
Net (loss) income	$(51,034)	$246,462
Comprehensive (loss) income	$(51,034)	$246,462
Net (loss) income per commion share - basic	$-	$0.02
Net (loss) income per commion share - diluted	$-	$0.02
Weighted average common shares outstanding		
Basic	11,201,760	11,201,760
Diluted	11,201,760	11,583,578

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Shares of Common Stock	Common	Additional Paid-In	Accumulated	Treasury