

INFORMATION ANALYSIS INC
Form 10-Q
May 14, 2013

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-22405

Information Analysis Incorporated
(Exact Name of Registrant as Specified in Its Charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-1167364
(I.R.S. Employer
Identification No.)

11240 Waples Mill Road
Suite 201
Fairfax, Virginia 22030

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: INFORMATION ANALYSIS INC - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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

Yes No

As of May 9, 2013, 11,201,760 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

Information Analysis Incorporated

Form 10-Q First Quarter 2013

INFORMATION ANALYSIS INCORPORATED

FORM 10-Q

Index

	Page Number
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements (unaudited except for the balance sheet as of December 31, 2012)</u> 3
	<u>Balance Sheets as of March 31, 2013 and December 31, 2012</u> 3
	<u>Statements of Operations and Comprehensive Loss for the three months ended March 31, 2013 and 2012</u> 4
	<u>Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u> 5
	<u>Notes to Financial Statements</u> 6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 10
<u>Item 4.</u>	<u>Controls and Procedures</u> 12
<u>PART II.</u>	<u>OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u> 13
<u>Item 1A.</u>	<u>Risk Factors</u> 13
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 13
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 13
<u>Item 5.</u>	<u>Other Information</u> 13
<u>Item 6.</u>	<u>Exhibits</u> 13
<u>SIGNATURES</u>	14

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INFORMATION ANALYSIS INCORPORATED

BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012 (see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,329,407	\$ 2,623,016
Accounts receivable, net	897,240	738,044
Prepaid expenses and other current assets	201,106	191,406
Note receivable, current	3,838	2,410
Total current assets	3,431,591	3,554,876
Property and equipment, net	36,478	39,226
Note receivable, long-term	11,633	3,885
Other assets	6,281	6,281
Total assets	\$ 3,485,983	\$ 3,604,268
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 101,191	\$ 111,585
Commissions payable	790,156	806,133
Accrued payroll and related liabilities	261,697	269,716
Deferred revenue	186,180	220,424
Other accrued liabilities	47,404	48,401
Total current liabilities	1,386,628	1,456,259
Stockholders' equity:		
Common stock, par value \$0.01, 30,000,000 shares authorized; 12,844,376 shares issued, 11,201,760 shares outstanding as of March 31, 2013 and December 31, 2012	128,443	128,443
Additional paid-in capital	14,584,962	14,581,475
Accumulated deficit	(11,683,839)	(11,631,698)
Treasury stock, 1,642,616 shares at cost	(930,211)	(930,211)
Total stockholders' equity	2,099,355	2,148,009
Total liabilities and stockholders' equity	\$ 3,485,983	\$ 3,604,268

The accompanying notes are an integral part of the financial statements

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

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

	For the three months ended March 31,	
	2013	2012
Revenues		
Professional fees	\$ 1,180,806	\$ 1,165,249
Software sales	136,243	348,741
Total revenues	1,317,049	1,513,990
Cost of revenues		
Cost of professional fees	690,643	676,634
Cost of software sales	113,342	304,669
Total cost of revenues	803,985	981,303
Gross profit	513,064	532,687
Selling, general and administrative expenses	454,280	408,079
Commissions on sales	112,306	148,649
Loss from operations	(53,522)	(24,041)
Other income	1,381	1,491
Loss before provision for income taxes	(52,141)	(22,550)
Provision for income taxes	--	--
Net loss	\$ (52,141)	\$ (22,550)
Comprehensive loss	\$ (52,141)	\$ (22,550)
Loss per common share:		
Basic	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00
Weighted average common shares outstanding:		
Basic	11,201,760	11,196,760
Diluted	11,201,760	11,196,760

The accompanying notes are an integral part of the financial statements

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(52,141)	\$(22,550)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,657	6,633
Stock-based compensation	3,487	1,576
Bad debt expense	--	1,020
Changes in operating assets and liabilities:		
Accounts receivable	(159,196)	2,185,832
Prepaid expenses and other current assets	(9,700)	213,740
Accounts payable and accrued expenses	(19,410)	(971,400)
Deferred revenue	(34,244)	(305,461)
Commissions payable	(15,977)	22,166
Net cash (used in) provided by operating activities	(281,524)	1,131,556
Cash flows from investing activities:		
Increase in note receivable - employee	(10,000)	--
Payments received on note receivable - employee	824	1,645
Capital expenditures	(2,909)	--
Net cash (used in) provided by investing activities	(12,085)	1,645
Net (decrease) increase in cash and cash equivalents	(293,609)	1,133,201
Cash and cash equivalents, beginning of the period	2,623,016	1,280,926
Cash and cash equivalents, end of the period	\$2,329,407	\$2,414,127
Supplemental cash flow information		
Interest paid	\$--	\$--
Income taxes paid	\$--	\$2,800

The accompanying notes are an integral part of the financial statements

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

INFORMATION ANALYSIS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

Information Analysis Incorporated (“IAI”, or the “Company”) was incorporated under the 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.

The accompanying unaudited financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities Exchange Commission. In the opinion of management, the unaudited financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair and not misleading presentation of the results of the interim periods presented. These unaudited financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2012 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 29, 2013 (the “Annual Report”). The accompanying December 31, 2012 financial information was derived from our audited financial statements included in the Annual Report. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts. The carrying amount of notes receivable approximate fair value based on interest rates currently available.

Company sales to departments or agencies of the U.S. federal government are subject to audit by the Defense Contract Audit Agency (“DCAA”), which could result in the renegotiation of amounts previously billed. Because the Company has not entered into any cost plus fixed fee contracts since 1997, management believes there is minimal risk of an audit by DCAA resulting in a material misstatement of previously reported financial statements.

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

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company earns revenue from both professional services and sales of software and related support. 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 from professional services is earned under time and materials and fixed-price contracts. For sales of third-party software products, revenue is recognized upon product delivery, with any maintenance related revenues recognized ratably over the maintenance period.

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 renewals of maintenance contracts on third-party software sales from prior years and to separable

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

2. Summary of Significant Accounting Policies (continued)

maintenance elements of sales of third-party software that include fixed terms of maintenance, such as 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 reports revenue on both a gross and net basis on a transaction by transaction analysis using authoritative guidance issued by the Financial Accounting Standards Board (the “FASB”). The Company considers the following factors to determine the gross versus net presentation: if the Company (i) acts as principal in the transaction; (ii) takes title to the products; (iii) has risks and rewards of ownership, such as the risk of loss for collection, delivery or return; and (iv) acts as an agent or broker (including performing services, in substance, as an agent or broker) with compensation on a commission or fee basis. Generally, sales of third-party software products such as Adobe and Micro Focus products are reported on a gross basis with the Company acting as the principal in these arrangements. This determination is 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 and 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. Generally, revenue derived for facilitating a sales transaction of Adobe products in which a customer introduced by the Company makes a purchase directly from the Company’s supplier or another designated reseller is recognized net when the commission payment is received since the Company is merely acting as an agent in these arrangements. Since the Company is not a direct party in the sales transaction, payment by the supplier is the Company’s confirmation that the sale occurred.

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.

The Company’s contracts with agencies of the U.S. federal 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, ratably throughout the contract as the services are provided, or subject to funds made available incrementally by legislators. 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.

Note Receivable

The note receivable balance consists of a note issued to a non-officer employee of the Company. The note bears interest compounded at 3.5% and requires equal semi-monthly payments. During the first quarter of 2013, additional principal was advanced to the employee and the note was amended to reflect the new principal, extend the maturity date from July 10, 2015 to January 25, 2017, and the semi-monthly payments were adjusted accordingly.

Stock-Based Compensation

Total stock-based compensation expense was \$3,487 and \$1,576 for the quarters ended March 31, 2013 and 2012, respectively, of which \$0 and \$550, respectively, related to options awarded to non-employees. The Company estimates the fair value of options granted using the Black-Scholes valuation model to establish the expense. When stock-based compensation is awarded to employees, the expense is recognized ratably over the vesting period. When stock-based compensation is awarded to non-employees, the expense is recognized over the period of performance.

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

2. Summary of Significant Accounting Policies (continued)

Income Taxes

As of March 31, 2013, there have been no material changes to the Company's uncertain tax position disclosures as provided in Note 7 of the Annual Report. The Company does not anticipate that total unrecognized tax benefits will significantly change prior to March 31, 2014.

3. Stock-Based Compensation

There were 160,000 option awards granted to employees and no option awards granted to non-employees in the three months ended March 31, 2013 and there were 60,000 option awards granted to employees and 5,000 option awards granted to non-employees in the three months ended March 31, 2012. The fair values of option awards granted in the three months ended March 31, 2013 and 2012 were estimated using the Black-Scholes option pricing model using the following assumptions:

	Three Months ended March 31, 2013		2012
Risk free interest rate	0.88 – 0.90%	1.20 – 2.31%	
Dividend yield	0%	0%	
Expected term	5 years	5-10 years	
Expected volatility	62.8%	62.8 – 67.9%	

The status of the options issued as of March 31, 2013 and changes during the three months ended March 31, 2013 and 2012, were as follows:

	Options outstanding	
	Number of shares	Weighted average price per share
Balance at December 31, 2012	1,032,500	\$ 0.29
Options granted	160,000	0.16
Options exercised, expired or forfeited	(10,000)	0.15
Balance at March 31, 2013	1,182,500	\$ 0.28
	Number of shares	Weighted average price per share

Edgar Filing: INFORMATION ANALYSIS INC - Form 10-Q

Balance at December 31, 2011	1,003,000	\$	0.31
Options granted	65,000		0.15
Options exercised, expired or forfeited	(28,000)		0.36
Balance at March 31, 2012	1,040,000	\$	0.30

The following table summarizes information about options at March 31, 2013:

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
1,182,500	\$ 0.28	4.90	\$ 1,770	960,250	\$ 0.30	3.81	\$ 1,770

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

3. Stock-Based Compensation (continued)

Nonvested stock awards as of March 31, 2013 and changes during the three months ended March 31, 2013 were as follows:

	Nonvested	Weighted average g rant date fair value
	Number of shares	
Balance at December 31, 2012	112,250	\$ 0.08
Granted	160,000	0.08
Vested	50,000	0.08
Balance at March 31, 2013	222,250	\$ 0.08

As of March 31, 2013 and 2012, unrecognized compensation cost associated with non-vested share-based employee and non-employee compensation totaled \$12,407 and \$6,382, respectively, which are expected to be recognized over weighted average periods of 6 months and 5 months, respectively.

4. Loss Per Share

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

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

	Net Loss	Shares	Per Share Amount
Basic net loss per common share for the three months ended March 31, 2013:			
Loss available to common stockholders	\$(52,141)	11,201,760	\$0.00
Effect of dilutive stock options	--	--	--
Diluted net loss per common share for the three months ended March 31, 2013:	\$(52,141)	11,201,760	\$0.00
Basic net loss per common share for the three months ended March 31, 2012:			
Loss available to common stockholders	\$(22,550)	11,196,760	\$0.00
Effect of dilutive stock options	--	--	--
Diluted net loss per common share for the three months ended March 31, 2012:	\$(22,550)	11,196,760	\$0.00

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

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

Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding our business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements. Investors should read and understand the risk factors detailed in our Form 10-K for the fiscal year ended December 31, 2012 and in other filings with the Securities and Exchange Commission.

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

- changes in the funding priorities of the U.S. federal government;
- changes in the way the U.S. federal government contracts with businesses;
 - terms specific to U.S. federal government contracts;
- our failure to keep pace with a changing technological environment;
 - intense competition from other companies;
- inaccuracy in our estimates of the cost of services and the timeline for completion of contracts;
 - non-performance by our subcontractors and suppliers;
 - our dependence on key personnel;
- our dependence on third-party software and software maintenance suppliers;
 - our failure to adequately integrate businesses we may acquire;
- fluctuations in our results of operations and the resulting impact on our stock price;
 - the exercise of outstanding options;
- our failure to adequately protect our intellectual property;
 - the limited public market for our common stock; and
- our forward-looking statements and projections may prove to be inaccurate.

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

Our Business

Founded in 1979, IAI is in the business of modernizing client information systems, developing and maintaining information technology systems, and performing consulting services to government and commercial organizations. We have performed software conversion projects for over 100 commercial and government customers, including Computer Sciences Corporation, IBM, Computer Associates, Sprint, Citibank, U.S. Department of Homeland Security, U.S. Treasury Department, U.S. Department of Agriculture, U.S. Department of Energy, U.S. Army, U.S. Air Force, U.S. Department of Veterans Affairs, and the Federal Deposit Insurance Corporation. Today, we primarily apply our technology, services and experience to legacy software migration and modernization for commercial companies and government agencies, and to developing web-based solutions for agencies of the U.S. federal government.

Three of our customers, one of which is a U.S. government agency with which we contract directly and two of which are companies with which we contract for services to U.S. government agencies represent material portions of our revenue. These customers accounted for 18.7% (direct) and 22.4% and 20.5% (under subcontract) of revenue in the first three months of 2013.

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

Three Months Ended March 31, 2013 versus Three Months Ended March 31, 2012

Revenue

Our revenues in the first quarter of 2013 were \$1,317,049 compared to \$1,513,990 in 2012, a decrease of 13.0%. Professional services revenue was \$1,180,806 versus \$1,165,249, an increase of 1.3%, and software product and maintenance revenue was \$136,243 versus \$348,741, a decrease of 60.9%. The decrease in our software product and maintenance revenue was primarily due to the expiration of one enterprise-wide U.S. federal government agency software maintenance contract, for which the bidding process for successive years was offered only under a type of U.S. federal government contract we do not have. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold.

Gross Margins

Gross margin was \$513,064, or 39.0% of sales in the first quarter of 2013 versus \$532,687, or 35.2% of sales, in the first quarter of 2012. For the quarter ended March 31, 2013, \$490,163 of the gross margin was attributable to professional services at a gross margin percentage of 41.5%, and \$22,901 of the gross margin was attributable to software sales at a gross margin percentage of 16.8%. In the same quarter in 2012, we reported gross margins of \$488,615, or 41.9% of sales for professional services and \$44,072, or 12.6% of sales for software sales. Gross margin on professional services was consistent in terms of percentage of sales. Gross margin on software sales decreased in terms of dollars due to contract expirations but increased as a percentage of sales due to the addition of one maintenance contract for which there are no third-party costs. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were \$454,280, or 34.5% of revenues, in the first quarter of 2013 versus \$408,079, or 27.0% of revenues, in the first quarter of 2012. These expenses increased \$46,201, or 11.3%, due largely to increases in recruiting fees, additional sales staff, and costs related to financial reporting.

Commission expense was \$112,306, or 8.5% of revenues, in the first quarter of 2013 versus \$148,649, or 9.8% of revenues, in the first quarter of 2012. This decrease of \$36,343, or 24.4%, is due to the decreases in gross margins and operating income on commissionable contracts, which drive commission earned at varying rates for each salesperson.

Net Loss

Net loss for the three months ended March 31, 2013, was \$52,141, or 4.0% of revenue, versus net loss of \$22,550, or 1.5 % of revenue, for the same period in 2012. The increase in net loss is due to decreases in software sales, and the absence related gross margin, as well as increases in recruiting fees and other selling, general and administrative expenses.

Liquidity and Capital Resources

Our cash and cash equivalents balance, when combined with our cash flow from operations during the first three months of 2013, were sufficient to provide financing for our operations. Our net cash used in the combination of our

operating, investing, and financing activities in the first three months of 2013 was \$293,609. Our net cash used, when subtracted from a beginning balance of \$2,623,016 yielded cash and cash equivalents of \$2,329,407 as of March 31, 2013. Our accounts receivable balances increased \$159,196 and our current liabilities as a whole decreased \$69,631. We had no non-current liabilities as of March 31, 2013.

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, 2013. As of March 31, 2013, no amounts were outstanding under this line of credit. At March 31, 2013, \$703,000 was available under this line of credit based on our outstanding accounts receivable.

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

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.

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

We have no off-balance sheet arrangements.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of March 31, 2013 (the "Evaluation Date"). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

“Item 1A. Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2012 includes a discussion of our risk factors. There have been no material changes from the risk factors described in our annual report on Form 10-K for the year ended December 31, 2012.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

31.2 Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

Information Analysis Incorporated

Form 10-Q First Quarter 2013

SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Information Analysis Incorporated
(Registrant)

Date: May 14, 2013

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

Date: May 14, 2013

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