

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020 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**

(Address of principal executive offices, Zip Code)

(703) 383-3000

(Registrant's telephone number, including area code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

11,211,760 shares of common stock, par value \$0.01 per share, as of August 13, 2020.

**INFORMATION ANALYSIS INCORPORATED
FORM 10-Q****Table of Contents**

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited except for the balance sheet as of December 31, 2019)	
Balance Sheets as of June 30, 2020 and December 31, 2019	3
Statements of Operations and Comprehensive Loss for the three months ended June 30, 2020 and 2019	4
Statements of Operations and Comprehensive Loss for the six months ended June 30, 2020 and 2019	5
Statements of Cash Flows for the six months ended June 30, 2020 and 2019	6
Statements of Changes in Stockholders' Equity for the six months ended June 30, 2020 and 2019	7
Notes to Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 4. Controls and Procedures	22
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	23
Item 1A. Risk Factors	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3. Defaults Upon Senior Securities	23
Item 4. Mine Safety Disclosures	23
Item 5. Other Information	23
Item 6. Exhibits	23
SIGNATURES	23

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS**

	June 30, 2020 (Unaudited)	December 31, 2019 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 961,172	\$ 1,039,442
Accounts receivable	967,887	668,712
Prepaid expenses and other current assets	88,172	500,163
Total current assets	<u>2,017,231</u>	<u>2,208,317</u>
Right-of-use operating lease asset	101,291	149,762
Property and equipment, net of accumulated depreciation and amortization of \$303,244 and \$300,258	15,492	9,681
Contract assets - non-current	13,918	-
Other assets	6,281	6,281
Total assets	<u>\$ 2,154,213</u>	<u>\$ 2,374,041</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 175,642	\$ 216,227
Contract liabilities	64,344	464,223
Accrued payroll and related liabilities	250,571	219,350
Commissions payable	103,946	108,058
Note payable - current	149,002	-
Operating lease liability - current	98,956	103,955
Other accrued liabilities	7,656	54,257
Interest payable	875	-
Total current liabilities	<u>850,992</u>	<u>1,166,070</u>
Note payable - non-current	300,998	-
Operating lease liability - non-current	-	45,595
Total liabilities	<u>1,151,990</u>	<u>1,211,665</u>
Stockholders' equity		
Common stock, \$0.01 par value, 30,000,000 shares authorized, 12,854,376 shares issued, 11,211,760 shares outstanding as of June 30, 2020, and December 31, 2019	128,543	128,543
Additional paid-in capital	14,683,743	14,682,937
Accumulated deficit	(12,879,852)	(12,718,893)
Treasury stock, 1,642,616 shares at cost at June 30, 2020, and December 31, 2019	(930,211)	(930,211)
Total stockholders' equity	<u>1,002,223</u>	<u>1,162,376</u>
Total liabilities and stockholders' equity	<u>\$ 2,154,213</u>	<u>\$ 2,374,041</u>

The accompanying notes are an integral part of the financial statements

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

	For the three months ended June 30,	
	2020	2019
Revenues		
Professional fees	\$ 928,421	\$ 761,629
Software sales	3,890,974	2,942,788
Total revenues	<u>4,819,395</u>	<u>3,704,417</u>
Cost of revenues		
Cost of professional fees	601,672	434,858
Cost of software sales	3,828,707	2,912,798
Total cost of revenues	<u>4,430,379</u>	<u>3,347,656</u>
Gross profit	389,016	356,761
Selling, general and administrative expenses	366,170	528,575
Commissions expense	<u>57,296</u>	<u>39,815</u>
Loss from operations	(34,450)	(211,629)
Other (expense) income	<u>(170)</u>	<u>3,027</u>
Loss before provision for income taxes	(34,620)	(208,602)
Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (34,620)</u>	<u>\$ (208,602)</u>
Comprehensive loss	<u>\$ (34,620)</u>	<u>\$ (208,602)</u>
Net loss per common share - basic	<u>\$ -</u>	<u>\$ (0.02)</u>
Net loss per common share - diluted	<u>\$ -</u>	<u>\$ (0.02)</u>
Weighted average common shares outstanding		
Basic	<u>11,211,760</u>	<u>11,207,804</u>
Diluted	<u>11,211,760</u>	<u>11,207,804</u>

The accompanying notes are an integral part of the financial statements

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

	For the six months ended June 30,	
	2020	2019
Revenues		
Professional fees	\$ 1,772,824	\$ 1,523,747
Software sales	5,108,327	3,359,493
Total revenues	<u>6,881,151</u>	<u>4,883,240</u>
Cost of revenues		
Cost of professional fees	1,181,303	881,726
Cost of software sales	5,032,005	3,321,914
Total cost of revenues	<u>6,213,308</u>	<u>4,203,640</u>
Gross profit	667,843	679,600
Selling, general and administrative expenses	706,983	1,014,027
Commissions expense	<u>122,917</u>	<u>70,761</u>
Loss from operations	(162,057)	(405,188)
Other income	<u>1,098</u>	<u>5,733</u>
Loss before provision for income taxes	(160,959)	(399,455)
Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (160,959)</u>	<u>\$ (399,455)</u>
Comprehensive loss	<u>\$ (160,959)</u>	<u>\$ (399,455)</u>
Net loss per common share - basic	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Net loss per common share - diluted	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Weighted average common shares outstanding		
Basic	<u>11,211,760</u>	<u>11,204,799</u>
Diluted	<u>11,211,760</u>	<u>11,204,799</u>

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net loss	\$ (160,959)	\$ (399,455)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,986	2,871
Stock option compensation	806	4,936
Changes in operating assets and liabilities:		
Accounts receivable	(299,175)	(37,478)
Prepaid expenses and other current assets	411,991	334,205
Contract assets - non-current	(13,918)	-
Accounts payable	(40,585)	167,342
Contract liabilities	(399,879)	(251,406)
Accrued payroll and related liabilities and other accrued liabilities	(16,628)	11,125
Commissions payable	(4,112)	(255,197)
Net cash used in operating activities	<u>(519,473)</u>	<u>(423,057)</u>
Cash flows from investing activities		
Acquisition of property and equipment	<u>(8,797)</u>	<u>(5,965)</u>
Net cash used in investing activities	<u>(8,797)</u>	<u>(5,965)</u>
Cash flows from financing activities		
Proceeds from note payable	450,000	-
Issuance of stock from exercise of options	-	1,000
Net cash provided by investing activities	<u>450,000</u>	<u>1,000</u>
Net decrease in cash and cash equivalents	(78,270)	(428,022)
Cash and cash equivalents, beginning of the period	<u>1,039,442</u>	<u>1,963,956</u>
Cash and cash equivalents, end of the period	<u>\$ 961,172</u>	<u>\$ 1,535,934</u>
Supplemental cash flow Information		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the six months ended June 30, 2020:

	Common stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2019	\$ 128,543	\$ 14,682,937	\$ (12,718,893)	\$ (930,211)	\$ 1,162,376
Net loss	-	-	(126,339)	-	(126,339)
Stock option compensation	-	450	-	-	450
Balances at March 31, 2020	\$ 128,543	\$ 14,683,387	\$ (12,845,232)	\$ (930,211)	\$ 1,036,487
Net loss	-	-	(34,620)	-	(34,620)
Stock option compensation	-	356	-	-	356
Balances at June 30, 2020	\$ 128,543	\$ 14,683,743	\$ (12,879,852)	\$ (930,211)	\$ 1,002,223

For the six months ended June 30, 2019:

	Common stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2018	\$ 128,443	\$ 14,676,006	\$ (12,001,647)	\$ (930,211)	\$ 1,872,591
Net loss	-	-	(190,853)	-	(190,853)
Stock option compensation	-	4,454	-	-	4,454
Balances at March 31, 2019	\$ 128,443	\$ 14,680,460	\$ (12,192,500)	\$ (930,211)	\$ 1,686,192
Net loss	-	-	(208,602)	-	(208,602)
Stock option compensation	-	482	-	-	482
Issuance of stock from exercise of option:	100	900	-	-	1,000
Balances at June 30, 2019	\$ 128,543	\$ 14,681,842	\$ (12,401,102)	\$ (930,211)	\$ 1,479,072

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and Business

Founded in 1979, Information Analysis Incorporated, which we refer to as the “Company”, “we”, or “IAI”, is in the business of modernizing client information systems, performing professional information technology (IT) services, and developing and maintaining IT systems for government and commercial organizations. IAI’s core competencies lie in legacy system (COBOL) migration and modernization, including developing user-friendly interfaces for complex legacy environments, database conversion and migration, development of electronic fillable forms (e-Forms), including smart forms, Section 508 compliant forms, and web-based and mobile device forms solutions, full life cycle Oracle development, and custom software development. The Company also engages in sales of third-party software for electronic forms development and management, legacy systems modernization, and robotics process automation. IAI’s ultimate customers include federal and state government agencies as well as private sector organizations throughout the United States, with a concentration in the Washington, D.C. metropolitan area.

Unaudited Interim Financial Statements

The accompanying unaudited financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the unaudited financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair and not misleading presentation of the results of the interim periods presented. These unaudited financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2019 included in the Annual Report on Form 10-K filed by the Company with the SEC on March 30, 2020 (the “Annual Report”), as amended. The accompanying December 31, 2019, balance sheet was derived from the audited financial statements included in the Annual Report. The results of operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

There have been no changes in the Company’s significant accounting policies as of June 30, 2020, as compared to the significant accounting policies disclosed in Note 1, “Summary of Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, that was filed with the SEC on March 30, 2020.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results can, and in many cases will, differ from those estimates.

Income Taxes

The Company has analyzed its income tax positions using the criteria required by GAAP and concluded that as of June 30, 2020, and December 31, 2019, it has no material uncertain tax positions and no interest or penalties have been accrued. Through the filing of its 2019 federal income tax return, the Company has net operating loss carryforwards of approximately \$3.5 million, of which \$867,000 will expire, if unused, on December 31, 2020.

Recent Accounting Pronouncements Not Yet Adopted

In December 2019, the Financial Accounting Standards Board issued ASU 2019-12, “*Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*,” that removes certain exceptions to the general principles in Topic 740 and simplifies the application of areas of Topic 740 by clarifying and amending existing guidance. The

amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The adoption of ASU 2019-12 is not expected to have a material effect on the Company's financial statements or cash flows.

2. Revenue from Contracts with Customers

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) the Company enters 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) it determines that collection of substantially all consideration to which the Company 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 the Company, 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, the Company applies 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 the Company will be entitled in exchange for transferring goods or services to the customer adjusted for estimated variable consideration, if any. The Company typically estimates 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.
- **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. The Company determines 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, the Company satisfies performance obligations** - The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at or over the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Nature of Products and Services

The Company generates 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 the Company. The Company sells through its direct relationships with end customers and under subcontractor arrangements.

Professional services are offered through several arrangements – through time and materials arrangements, fixed-price-per-unit arrangements, fixed-price arrangements, or combinations of these arrangements within individual contracts. Revenue under time and materials arrangements is recognized over time in the period the hours are worked or the expenses are incurred, as control of the benefits of the work is deemed to have passed to the customer as the work is performed. Revenue under fixed-price-per-unit arrangements is recognized at a

point in time when delivery of units have occurred and units are accepted by the customer or are reasonably expected to be accepted. Generally, revenue under fixed-price arrangements and mixed arrangements is recognized either over time or at a point in time based on the allocation of transaction pricing to each identified performance obligation as control of each is transferred to the customer. For fixed-price arrangements for which the Company is paid a fixed fee to make itself available to support a customer, with no predetermined deliverables to which transaction prices can be estimated or allocated, revenue is recognized ratably over time.

Third-party software licenses are classified as enterprise server-based software licenses or desktop software licenses, and desktop licenses are further classified by the type of customer and whether the licenses are bulk licenses or individual licenses. The Company's obligations as the seller for each class differ based on its reseller agreements and whether its customers are government or non-government customers. Revenue from enterprise server-based sales to either government or non-government customers is usually recognized in full at a point in time based on when the customer gains use of the full benefit of the licenses, after the licenses are implemented. If the transaction prices of the performance obligations related to implementation and customer support for the individual contract is material, these obligations are recognized separately over time, as performed. Revenue for desktop software licenses for government customers is usually recognized on a gross basis at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. If the transaction prices of the performance obligations related to implementing the government administrator's use of the administrative portal and administrator support for the individual contract are material (rare), these obligations are recognized separately over time, as performed. Revenue for bulk desktop software licenses for non-government customers is usually recognized on a gross basis at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. For desktop software licenses sold on an individual license basis to non-government customers, where the Company has no obligation to the customer after the third-party makes delivery of the licenses, the Company has determined it is acting as an agent, and the Company recognizes revenue upon delivery of the licenses only for the net of the selling price and its contract costs.

Third-party support and maintenance contracts for enterprise server-based software include a performance obligation under the Company's reseller agreements for it to be the first line of support (direct support) and second line of support (intermediary between customer and manufacturer) to the customer. Because of the support performance obligations, and because the amount of support is not estimable, the Company recognizes revenue ratably over time as it makes itself available to provide the support.

Incentive payments are received under reseller agreements with software manufacturers and suppliers where the Company introduces and court a customer, but the sale occurs directly between the customer and the supplier or between the customer and the manufacturer. Since the transfer of control of the licenses cannot be measured from outside of these transactions, revenue is recognized when payment from the manufacturer or supplier is received.

Disaggregation of Revenue from Contracts with Customers

Contract Type	3 Months ended 06/30/2020		3 Months ended 06/30/2019	
	Amount	Percentage	Amount	Percentage
Services Time & Materials	\$ 730,813	15.2%	\$ 577,779	15.6%
Services Fixed Price	27,150	0.6%	95,235	2.6%
Services Combination	134,038	2.8%	40,364	1.1%
Services Fixed Price per Unit	36,420	0.7%	48,251	1.3%
Third-Party Software	3,607,116	74.8%	2,789,648	75.3%
Software Support & Maintenance	263,125	5.5%	149,290	4.0%
Incentive Payments	20,733	0.4%	3,850	0.1%
Total Revenue	<u>\$ 4,819,395</u>		<u>\$ 3,704,417</u>	

Contract Type	6 Months ended 06/30/2020		6 Months ended 06/30/2019	
	Amount	Percentage	Amount	Percentage
Services Time & Materials	\$ 1,321,383	19.2%	\$ 1,174,530	24.1%
Services Fixed Price	150,555	2.2%	214,398	4.4%
Services Combination	216,446	3.2%	72,648	1.5%
Services Fixed Price per Unit	84,440	1.2%	62,171	1.3%
Third-Party Software	4,611,420	67.0%	3,057,367	62.5%
Software Support & Maintenance	475,693	6.9%	298,152	6.1%
Incentive Payments	21,214	0.3%	3,974	0.1%
Total Revenue	<u>\$ 6,881,151</u>		<u>\$ 4,883,240</u>	

Contract Balances

Accounts Receivable

Trade accounts receivable are recorded at the billable amount where the Company has the unconditional right to bill, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, each customer's expected ability to pay and collection history, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified. There were no such allowances recognized at June 30, 2020, and December 31, 2019. The accounts receivable balance does not include the amount invoiced but withheld from payment as a financing component under one contract with a customer. The present value of the withheld amount is classified as a contract asset.

Contract Assets

Contract assets consist of assets resulting when revenue recognized exceeds the amount billed or billable to the customer due to allocation of transaction price, and of amounts withheld from payment of invoices as a financing component of a contract. There were \$13,918 in long-term contract assets at June 30, 2020, and none at December 31, 2019.

Contract Liabilities

Contract liabilities consist of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred. Changes in contracts liabilities balances in 2020 are as follows:

Contract Liabilities

Balance at December 31, 2019	\$ 464,223
Contract liabilities added	19,136
Revenue recognized	<u>(212,568)</u>
Balance at March 31, 2020	<u>270,791</u>
Contract liabilities added	9,906
Revenue recognized	<u>(216,353)</u>
Balance at June 30, 2020	<u>\$ 64,344</u>

Costs to Obtain or Fulfill a Contract

When applicable, the Company recognizes an asset related to the costs incurred to obtain a contract only if it expects to recover those costs and it would not have incurred those costs if the contract had not been obtained. The Company recognizes an asset from the costs incurred to fulfill a contract if the costs (i) are specifically identifiable to a contract, (ii) enhance resources that will be used in satisfying performance obligations in future and (iii) are expected to be recovered. There were no such assets at June 30, 2020, and December 31, 2019. When incurred, these costs are amortized ratably over the periods of the contracts to which those costs apply.

Financing Components

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that one of its subcontracts to a prime contractor includes a significant financing component. The subcontract is invoiced on a time and materials basis, under which 90% of each invoice amount is paid under regular terms, and the 10% payment balance of each invoice is deferred until the prime contractor meets a specific deliverable under its prime contract, which is expected to occur approximately June 2022. The primary purpose of this arrangement is to assist the prime contractor in meeting all of its financial obligations until it can realize the financial benefit of meeting the deliverable. The Company has estimated its interest rate of 4.5% based on a small premium over the rate of its revolving line of credit as of the measurement date.

Deferred Costs of Revenue

Deferred costs of revenue consist of the costs of third-party support and maintenance contracts for enterprise server-based software. These costs are reported under the prepaid expenses and other current assets caption on the Company's balance sheets. The Company recognizes these direct costs ratably over time as it makes itself available to provide its performance obligation for software support, commensurate with its recognition of revenue. Deferred costs of revenue balances included in prepaid expenses were \$56,275 and \$453,607 at June 30, 2020, and December 31, 2019, respectively.

Deferred Costs of Revenue

Balance at December 31, 2019	\$ 453,607
Deferred costs added	182
Deferred costs expensed	<u>(207,438)</u>
Balance at March 31, 2020	<u>246,351</u>
Deferred costs added	2,472
Deferred costs expensed	<u>(192,548)</u>
Balance at June 30, 2020	<u><u>\$ 56,275</u></u>

3. Leases

The Company has an operating lease which is a real estate lease for its headquarters in Fairfax, Virginia. This lease has a fixed lease term of 49 months. The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use operating lease assets and operating lease liabilities in the Company's balance sheet as of June 30, 2020, and December 31, 2019. As of June 30, 2020, and December 31, 2019, the Company does not have any sales-type or direct financing leases.

The Company's operating lease asset represents its right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Since the lease does not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease agreement includes rental payments escalating annually for inflation at a fixed rate. These payments are included in the initial measurement of the operating lease liability and operating lease asset. The Company does not have any rental

payments which are based on a change in an index or a rate that can be considered variable lease payments, which would be expensed as incurred.

The Company's lease agreement does not contain any material residual value guarantees or material restrictions or covenants.

The Company does not sublease any real estate to third parties.

The following table provides supplemental balance sheet information related to the Company's operating lease:

Balance Sheet Classification	as of June 30, 2020	as of December 31, 2019
Assets:		
Right-to-use operating lease asset	\$ 101,291	\$ 149,762
Liabilities:		
Operating lease liability - current	\$ 98,956	\$ 103,955
Operating lease liability - non-current	-	45,595
Total lease liabilities	\$ 98,956	\$ 149,550

The following table reconciles the undiscounted cash flows to the operating lease liabilities recorded in the Company's balance sheet at June 30, 2020.

	June 30, 2020
Remainder of 2020	\$ 55,719
2021	46,433
Total lease payments	102,152
Less: discount	(3,196)
Present value of lease liabilities	\$ 98,956

As of June 30, 2020, the Company's sole operating lease had a weighted average lease term of approximately 1.0 year. The discount rate of the lease is equal to IAI's incremental borrowing rate at the measurement date of the lease agreement. The weighted average discount rate of the Company's operating lease is approximately 5.5%. For the three months ended June 30, 2020 and 2019, the Company incurred \$26,122 of expense related to its operating leases. Rent expense for the six months ended June 30, 2020 and 2019, was \$52,244.

4. Stock-Based Compensation

The Company has two shareholder-approved stock-based compensation plans. The 2006 Stock Incentive Plan was adopted in 2006 ("2006 Plan") and had options granted under it through April 12, 2016. On June 1, 2016, the shareholders ratified the IAI 2016 Stock Incentive Plan ("2016 Plan"), which had been approved by the Board of Directors on April 4, 2016.

The Company recognizes compensation costs only for those shares expected to vest on a straight-line basis over the requisite service period of the awards. Such options generally vest over periods of six months to two years. Fair values of option awards granted in the three months and six months ended June 30, 2020 and 2019, were estimated using the Black-Sholes option pricing model under the following assumptions:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Risk-free interest rate	0.33%	2.31%	0.33%	2.31%
Dividend yield	0%	0%	0%	0%
Expected term	5 years	5 years	5 years	5 years
Expected volatility	65.8% - 66.0%	57.9%	65.8% - 66.0%	57.9%

2016 Stock Incentive Plan

The 2016 Plan became effective June 1, 2016, and expires April 4, 2026. The 2016 Plan provides for the granting of equity awards to key employees, including officers and directors. The maximum number of shares for which equity awards may be granted under the 2016 Plan is 1,000,000. Options under the 2016 Plan expire no later than ten years from the date of grant or within prescribed periods following cessation of employment, whichever comes first, and vest over periods determined by the Board of Directors. The minimum exercise price of each option is the quoted market price of the Company's stock on the date of grant. At June 30, 2020, there were unexpired options for 381,000 shares issued under the 2016 Plan, of which 368,000 were exercisable.

2006 Stock Incentive Plan

The 2006 Plan became effective May 18, 2006, and expired April 12, 2016. The 2006 Plan provides for the granting of equity awards to key employees, including officers and directors. Options under the 2006 Plan were generally granted at-the-money or above, expire no later than ten years from the date of grant or within three months of within prescribed periods following cessation of employment, whichever comes first, and vest over periods determined by the Board of Directors. The number of shares subject to options available for issuance under the 2006 Plan could not exceed 1,950,000. There were 839,000 unexpired options remaining from the 2006 Plan at June 30, 2020, all of which were exercisable.

The status of the options issued under the foregoing option plans as of June 30, 2020, and changes during the six months ended June 30, 2020, were as follows:

Incentive Options	Shares	Options outstanding		
		Weighted average exercise price per share	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2019	1,349,000	\$ 0.23		
Options granted	-	-		
Options exercised	-	-		
Options expired	(129,000)	0.17		
Options forfeited	-	-		
Outstanding at March 31, 2020	1,220,000	\$ 0.24		
Options granted	10,000	0.15		
Options exercised	-	-		
Options expired	(10,000)	0.19		
Options forfeited	-	-		
Outstanding at June 30, 2020	1,220,000	\$ 0.24	3 years, 9 months	\$ 37,353
Exercisable at June 30, 2020	1,207,000	\$ 0.24	3 years, 8 months	\$ 36,703

There were 10,000 options granted during the three months and six months ended June 30, 2020, and there were 3,000 options granted during the three months and six months ended June 30, 2019. There were no options exercised during the three months and six months ended June 30, 2020, and there were 10,000 options exercised in the three months and six months ended June 30, 2019. As of June 30, 2020, there was \$775 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock incentive plans; that cost is expected to be recognized over a weighted-average period of nine months.

Total compensation expense related to these plans was \$356 and \$482 for the three months ended June 30, 2020 and 2019, respectively, and \$806 and \$4,936 for the six months ended June 30, 2020 and 2019, respectively.

Nonvested option awards as of June 30, 2020 and changes during the six months ended June 30, 2020 were as follows:

	Nonvested	
	Shares	Weighted average grant date fair value
Nonvested at January 1, 2020	23,500	\$ 0.17
Granted	-	-
Vested	(5,000)	0.21
Forfeited	-	-
Nonvested at March 31, 2020	18,500	\$ 0.15
Granted	10,000	0.08
Vested	(15,500)	0.16
Forfeited	-	-
Nonvested at June 30, 2020	<u>13,000</u>	<u>\$ 0.09</u>

5. Revolving Line of Credit

The Company has a revolving line of credit with a bank providing for demand or short-term borrowings of up to \$1,000,000. The line expires on July 31, 2021. As of June 30, 2020, no amounts were outstanding under this line of credit. The Company did not borrow against this line of credit in the last twelve months.

6. Note Payable

Due to the coronavirus uncertainty, and pending staffing and payroll cuts due to liquidity constraints, the Company applied for a Paycheck Protection Program loan ("PPP"), guaranteed by the U.S. Small Business Administration ("SBA"). The Company was funded by its lender on April 20, 2020, in the amount of \$450,000. The loan accrues interest at a fixed rate of 1% and has a term of two years. The first payment is deferred for six months, though interest accrues during the deferral period. The loan has been used exclusively to support maintaining employee payroll and benefits. Though the PPP program was amended by the U.S. Congress to allow the proceeds of the loan that qualify for forgiveness to be extended to twenty-four weeks, the Company has opted to apply for forgiveness under the original PPP based on the use of proceeds over eight weeks. The Company will apply to the SBA through its lender for forgiveness for an amount of \$395,000 as soon as its lender's PPP forgiveness portal is available, which is currently expected to be in late August 2020. The amount of forgiveness for which IAI may be approved is uncertain.

7. 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 earnings (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 antidilutive effect of 64,076 shares and 185,234 shares from stock options were excluded from diluted shares for the three months ended June 30, 2020 and 2019, respectively, and the antidilutive effect of 64,076 shares and 229,741 shares from stock options were excluded from diluted shares for the six months ended June 30, 2020 and 2019, respectively.

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

	<u>Net loss</u>	<u>Shares</u>	<u>Per share amount</u>
Basic net loss per common share for the three months ended June 30, 2020:			
Loss available to common shareholders	\$ (34,620)	11,211,760	\$ -
Effect of dilutive stock options	<u>-</u>	<u>-</u>	<u>-</u>
Diluted net loss per common share for the three months ended June 30, 2020:	<u>\$ (34,620)</u>	<u>11,211,760</u>	<u>\$ -</u>
Basic net loss per common share for the three months ended June 30, 2019:			
Loss available to common shareholders	\$ (208,602)	11,207,804	\$ (0.02)
Effect of dilutive stock options	<u>-</u>	<u>-</u>	<u>-</u>
Diluted net loss per common share for the three months ended June 30, 2019:	<u>\$ (208,602)</u>	<u>11,207,804</u>	<u>\$ (0.02)</u>
Basic net loss per common share for the six months ended June 30, 2020:			
Loss available to common shareholders	\$ (160,959)	11,211,760	\$ (0.01)
Effect of dilutive stock options	<u>-</u>	<u>-</u>	<u>-</u>
Diluted net loss per common share for the six months ended June 30, 2020:	<u>\$ (160,959)</u>	<u>11,211,760</u>	<u>\$ (0.01)</u>
Basic net loss per common share for the six months ended June 30, 2019:			
Loss available to common shareholders	\$ (399,455)	11,204,799	\$ (0.04)
Effect of dilutive stock options	<u>-</u>	<u>-</u>	<u>-</u>
Diluted net loss per common share for the six months ended June 30, 2019:	<u>\$ (399,455)</u>	<u>11,204,799</u>	<u>\$ (0.04)</u>

8. Subsequent Events

The COVID-19 (coronavirus) outbreak has had a notable impact on general economic conditions, including, but not limited to, the temporary closures of many businesses, “shelter in place” and other governmental regulations, and “work from home” directives. There are many unknowns, and many regional inconsistencies. Notable potential effects on the Company include U.S. government procurements may be delayed or cancelled, work on new or existing contracts that require personal interactions may be suspended, payment processing for customer invoices may be delayed, employees and customers or their families may become infected, and personal business development meetings may not be able to take place. The Company continues to monitor the impact of the COVID-19 outbreak closely. The extent to which the COVID-19 outbreak will impact the Company’s business, results of operations, financial condition, and cash flows is uncertain.

The Company’s revolving line of credit was due to expire July 31, 2020. The lender and the Company agreed to terms to renew the line of credit until July 31, 2021. The material terms of the line of credit were modified such that the interest rate is now ICE LIBOR + 3.5%, with a floor of 4.0%, which is the current rate, the Company is subject to a commitment fee for amounts not borrowed, there is more frequent reporting, a covenant has been added to have no more than two quarters per year with a loss and net income overall each year, the Company must maintain minimum cash and cash equivalents of \$500,000, and the Company must report and maintain quarterly a minimum tangible net worth that is adjustable upward as a percentage of net income.

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

Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding our business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements. Investors should read and understand the risk factors detailed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 ("2019 10-K") and in other filings with the Securities and Exchange Commission.

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

- changes in the funding priorities of the U.S. federal government;
- temporary or extended budget-related shutdowns of the U.S. federal government;
- terms specific to U.S. federal government contracts;
- our failure to generate a sufficient level of professional fees;
- opportunities for repeat business for some electronic forms customers are declining;
- over half of our revenue is concentrated among a small number of 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;
- health epidemics, pandemics, and other natural disasters and national emergencies;
- our dependence on third-party software and software maintenance suppliers;
- fluctuations in our results of operations and the resulting impact on our stock price;
- 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 of our 2019 10-K. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this report.

Our Business

Founded in 1979, Information Analysis Incorporated is in the business of modernizing client information systems, performing professional information technology (IT) services, and developing and maintaining IT systems for government and commercial organizations. IAI's core competencies lie in legacy system (COBOL) migration and modernization, including developing user-friendly interfaces for complex legacy environments, database conversion and migration, development of electronic fillable forms (e-Forms), including smart forms, Section 508 compliant forms, and web-based and mobile device forms solutions, full life cycle Oracle development, and custom software development. We also engage in sales of third-party software for electronic forms development and management, legacy systems modernization, and robotics process automation. IAI's customers include federal and state government agencies as well as private sector organizations throughout the United States, with a concentration in the Washington, D.C. metropolitan area.

We have performed software modernization and electronic forms conversion projects for over 100 commercial and government customers, including, but not limited to, 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, and several private sector companies. We have recently worked as a subcontractor in partnership with General Dynamics Information Technology (formerly Computer Sciences Corporation, CSRA, and Anteon), Guidehouse (formerly PriceWaterhouse Coopers), Lockheed Martin, and several other large and small prime contractors. IAI also provides services through its GSA MAS Schedule contract (47QTCA18D0080) and maintains reseller and solution partner relationships with firms such as Adobe Systems, Carahsoft, Heirloom Computing, immixTechnology, Micro Focus, Microsoft, Oracle and UiPath. Additional information on IAI may be viewed at its website located at www.infoa.com.

Business Strategy and Trends

IAI has been experiencing prolonged delays in the commencement of new professional fees contracts and subcontracts due to protests and now coronavirus. The largest of these contracts, originally delayed due to protest and subsequently delayed due to indirect effects related to coronavirus, commenced on June 1, 2020.

The effects of the coronavirus pandemic, including changes to qualifications and regulations involving lending and unemployment, as well as large scale insurance claims, health care bottlenecks, and procurement and distribution issues for personal protective equipment, have highlighted the areas where modernization of large legacy systems is essential. Federal government agencies, state agencies, and the banking, insurance, and health care industries are recognizing the need to modernize and migrate from their legacy systems quickly, rather than waiting until the next large stressor to their systems materializes.

IAI is refocusing its strategy to grow its business by aggressively pursuing these targeted markets directly and through key teaming arrangements, while controlling its administrative and overhead expenses. As our liquidity improves now that some of our delayed contracts have commenced, we will also explore growth through strategic acquisition or merger.

In direct response to the coronavirus pandemic, IAI has taken specific actions to ensure the safety of its employees. We have taken all necessary measures, most of which were already in place, to ensure that our employees can safely work from their homes. Employees and management that must access our corporate offices do so briefly, and only after coordinating with others to avoid overlap. IAI maintains continuous contact with its suppliers and its customers to stay cognizant of how any issues they are experiencing may affect our own business. As we near the time that we welcome certain employees back to working in community with others at our offices, we are carefully instituting "return-to-work" safety guidelines that are easily adaptable to changes in local, state, and federal recommendations and regulations.

Concentration of Risk

In the three months ended June 30, 2020, our prime contracts with U.S. government agencies generated 79.3% of our revenue, subcontracts under federal procurements generated 19.9% of our revenue, and commercial contracts generated 0.8% of our revenue. The terms of these contracts and subcontracts vary from single transactions to seven years. Among prime contracts with U.S. government agencies, two software sales contracts generated 40.1% and 18.4% of our revenue, respectively. Three professional services subcontracts under one prime contractor for projects at one federal agency collectively generated 12.1% of our revenue.

In the three months ended June 30, 2019, our prime contracts with U.S. government agencies generated 85.2% of our revenue, subcontracts under federal procurements generated 14.7% of our revenue, and commercial contracts generated 0.1% of our revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Among prime contracts with U.S. government agencies, two software sales contracts generated 52.1% and 18.4% of our revenue, respectively. One professional services subcontract under a federal procurement generated 11.7% of our revenue.

In the six months ended June 30, 2020, our prime contracts with U.S. government agencies generated 77.5% of our revenue, subcontracts under federal procurements generated 22.0% of our revenue, and commercial and local government contracts combined generated 0.5% of revenue. The terms of these contracts and subcontracts vary from single transactions to seven years. Among prime contracts with U.S. government agencies, three software sales contracts generated 28.1%, 12.9%, 10.7% of our revenue, respectively. One subcontract under a federal procurement generated 11.8% of our revenue, and three professional services subcontracts under one

prime contractor (including the one that generated 11.8% above) for projects at one federal agency collectively generated 15.1% of our revenue.

In the six months ended June 30, 2019, our prime contracts with U.S. government agencies generated 77.8% of our revenue, subcontracts under federal procurements generated 22.1% of our revenue, and commercial contracts generated 0.1% of our revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Among prime contracts with U.S. government agencies, two software sales contracts generated 39.6% and 14.0% of our revenue, respectively. One professional services subcontract under a federal procurement generated 17.3% of our revenue.

At June 30, 2020, accounts receivable balances related to one prime contract with a U.S. government agency represented 10.1% of our outstanding accounts receivable, balances related to one subcontract under a federal procurement represented 19.1% of our outstanding accounts receivable, and balances related to three professional services subcontracts under one prime contractor for projects at one federal agency collectively represented 41.3% of our outstanding accounts receivable, two of which individually represented 21.5% and 14.2%, respectively.

We sold third-party software and maintenance contracts under agreements with one major supplier. These sales accounted for 79.9% of total revenue in the second quarter of 2020, and 79.3% of revenue in the second quarter of 2019, and accounted for 72.5% of total revenue in the six months ended June 30, 2020, and 68.6% of revenue in the six months ended June 30, 2019.

Three Months Ended June 30, 2020 versus Three Months Ended June 30, 2019

Revenue

Our revenues in the second quarter of 2020 were \$4,819,395 compared to \$3,704,417 in the second quarter of 2019, an increase of \$1,114,978, or 30.1%. Professional fee revenue was \$928,421 in the second quarter of 2020 versus \$761,629 in the corresponding quarter in 2019, an increase of \$166,792, or 21.9%, and software revenue was \$3,890,974 in the second quarter of 2020 versus \$2,942,788 in the second quarter of 2019, an increase of \$948,186, or 32.2%. Revenue from professional fees increased due primarily to contracts that were added since the second quarter of 2019, as well as variations in the levels of activity on several other continuing contracts. The increase in our software revenue in 2020 versus the same period in 2019 is due to the non-recurring nature of many of our software sales transactions, as well as the timing of recurring orders. Software sales are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Gross Profit

Gross profit was \$389,016, or 8.1% of revenue in the second quarter of 2020 versus \$356,761, or 9.6% of revenue in the second quarter of 2019. For the quarter ended June 30, 2020, \$326,749 of the gross profit was attributable to professional fees at a gross profit percentage of 35.2%, and \$62,267 of the gross profit was attributable to software sales at a gross profit percentage of 1.6%. In the same quarter in 2019, we reported gross profit for professional fees of \$326,771, or 42.9%, of professional fee revenue, and gross profit of \$29,990, or 1.0% of software sales. Gross profit from professional fees remained constant, while it decreased as a percentage of sales. The percentage decrease is due to two contracts in the second quarter of 2019 for which the timing of revenue recognized was not tied to the timing of the costs incurred based on customer acceptance of units of services provided for one and a fixed-fee services arrangement for the other. Gross profit on software sales increased due to an increase in referral fees earned, for which there are few to no costs charged against them, and due to an increase in overall revenue, partially based on sales of one of our newer software offerings, for which we have found better margins. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and incentive payments earned, although the fluctuation does not have a material effect on our gross profit, as the gross profit percentage on software sales averages less than 2.0%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were \$366,170, or 7.6% of revenues, in the second quarter of 2020 versus \$528,575, or 14.3% of revenues, in the second quarter of 2019. These expenses decreased \$162,405, or 30.7%, from the second quarter of 2019. These decreases are primarily related to decreases in the costs of overhead and administrative labor, and the fringe benefits associated with that labor, as well as decreases in legal and accounting expenses.

Commissions expense was \$57,296, or 1.2% of revenues, in the second quarter of 2020 versus \$39,815, or 1.1% of revenues, in the second quarter of 2019. Commissions are driven by varying factors and are earned at varying rates for each salesperson. Decreases in overhead labor and increases in referral fees earned led to a higher commission base for one of our commissioned business development representatives.

Net loss

Net loss for the three months ended June 30, 2020, was (\$34,620), or (0.7%) of revenue, versus (\$208,602), or (5.6%) of revenue, for the same period in 2019. The reduction in net loss is due to the June 1, 2020, commencement of a contract that had been delayed in protest since second quarter 2019, and winning additional contracts, including one related to the effect of coronavirus on the operations of a U.S. federal agency. We continue to incur the costs necessary to gain additional business.

We reported at December 31, 2019, that there was a delay in our ability to commence services on a material subcontract. The delay was due to the incumbent prime contractor filing an additional protest with the Government Accountability Office after losing its initial protest to the contracting officer. In April 2020, we were made aware that the incumbent withdrew its subsequent protest, thereby confirming the initial contract award to our prime contractor. The coronavirus pandemic indirectly impacted the commencement of services under this contract for a few months, but we finally commenced providing services under this seven-year subcontract award on June 1, 2020. We anticipate net income in the third quarter due to the increase of our professional fee revenue we are experiencing under the commencement of new contracts.

Six months Ended June 30, 2020 versus Six months Ended June 30, 2019

Revenue

Our revenues in the first six months of 2020 were \$6,881,151 compared to \$4,883,240 in the first six months of 2019, an increase of \$1,997,911, or 40.9%. Professional fee revenue was \$1,772,824 in the first six months of 2020 versus \$1,523,747 in the corresponding quarter in 2019, an increase of \$249,077, or 16.3%, and software revenue was \$5,108,327 in the first six months of 2020 versus \$3,359,493 in the first six months of 2019, an increase of \$1,748,834, or 52.1%. Revenue from professional fees increased due primarily to contracts that were added since the first six months of 2019, as well as variations in the levels of activity on several other continuing contracts. The increase in our software revenue in 2020 versus the same period in 2019 is due to the non-recurring nature of many of our software sales transactions, as well as the timing of recurring orders. Software sales are subject to considerable fluctuation from period to period, based on the product mix sold and referral fees earned.

Gross Profit

Gross profit was \$667,843, or 9.7% of revenue in the first six months of 2020 versus \$679,600, or 13.9% of revenue in the first six months of 2019. For the quarter ended June 30, 2020, \$591,521 of the gross profit was attributable to professional fees at a gross profit percentage of 33.4%, and \$76,322 of the gross profit was attributable to software sales at a gross profit percentage of 1.5%. In the same quarter in 2019, we reported gross profit for professional fees of \$642,021, or 42.1%, of professional fee revenue, and gross profit of \$37,579, or 1.1% of software sales. Gross profit from professional fees decreased primarily due to personnel that were working full time in 2020, but for the first five months of 2020 were not fully billable (by agreement) on a contract where working together with the prime contractor, we needed to keep the team together and ready to begin another contract that had been delayed due to protest, and which finally commenced June 1, 2020. Gross profit on software sales increased due to an increase in referral fees earned, for which there are few to no costs charged against them, and due to an increase in overall revenue, partially based on sales of one of our newer software offerings, for which we have found better margins. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and incentive payments earned, although the fluctuation does not have a material effect on our gross profit, as the gross profit percentage on software sales averages less than 2.0%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were \$706,983, or 10.3% of revenues, in the first six months of 2020 versus \$1,014,027, or 20.8% of revenues, in the first six months of 2019. These expenses decreased \$307,044, or 30.3%, from the first six months of 2019. These decreases are primarily related to decreases in the costs of overhead and administrative labor, and the fringe benefits associated with that labor, as well as decreases in legal and accounting expenses.

Commissions expense was \$122,917, or 1.8% of revenues, in the first six months of 2020 versus \$70,761, or 1.4% of revenues, in the first six months of 2019. Commissions are driven by varying factors and are earned at varying rates for each salesperson. Decreases in overhead labor and increases in referral fees led to a higher commission base for one of our commissioned business development representatives.

Net loss

Net loss for the six months ended June 30, 2020, was (\$160,959), or (2.3%) of revenue, versus (\$399,455), or (8.2%) of revenue, for the same period in 2019. The reduction in net loss is due to reductions in overhead and administrative labor and other administrative expenses, the June 1, 2020, commencement of a contract that had been delayed in protest since second quarter 2019, and winning additional contracts, including one related to the effect of coronavirus on the operations of a U.S. federal agency.

Liquidity and Capital Resources

Our beginning cash and cash equivalents balance, when combined with our cash flow from operations and the proceeds received from our Paycheck Protection Program loan, were sufficient to provide financing for our operations. For the first six months of 2020, net cash used in operating activities was \$519,000 primarily due to our net loss of \$161,000, our reduction of contract liabilities by \$400,000, and our increase in accounts receivable of \$299,000. Our cash flows from financing activities provided \$450,000 as proceeds of our PPP loan guaranteed by the SBA. Our overall decrease in cash and cash equivalents of \$78,000, when subtracted from a beginning balance of \$1.04 million, yielded cash and cash equivalents of \$961,000 at June 30, 2020.

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 at June 30, 2020, was due to expire on July 31, 2020. We agreed to terms with the lender to renew the line of credit until July 31, 2021. The material terms of the line of credit were modified such that the interest rate is now ICE LIBOR + 3.5%, with a floor of 4.0%, which is the current rate, we are subject to a commitment fee for amounts not borrowed, there is more frequent reporting required, a covenant has been added to have no more than two quarters per year with a loss and net income overall each year, we must maintain minimum cash and cash equivalents of \$500,000, and we must report and maintain quarterly a minimum tangible net worth that is adjustable upward as a percentage of net income. As of June 30, 2020, no amounts were outstanding under this line of credit. We did not borrow against this line of credit during the first six months of 2020.

Due to the coronavirus uncertainty, and pending staffing and payroll cuts due to liquidity constraints, we applied for a Paycheck Protection Program loan ("PPP"), guaranteed by the U.S. Small Business Administration ("SBA"). We were funded by our lender on April 20, 2020, in the amount of \$450,000. The loan accrues interest at a fixed rate of 1% and has a term of two years. The first payment is deferred for six months, though interest accrues during the deferral period. The loan has been used exclusively to support maintaining employee payroll and benefits. Though the PPP program was amended by the U.S. Congress to allow the proceeds of the loan that qualify for forgiveness to be extended to twenty-four weeks, we have opted to apply for forgiveness under the original PPP based on the use of proceeds over the original eight weeks. We will apply to the SBA through our lender for forgiveness for an amount of \$395,000 as soon as our lender's PPP forgiveness portal is available, which is currently expected to be in late August 2020. The amount of forgiveness for which we may be approved is uncertain.

Based on our current cash position and operating plan, including the measures we have taken and will take with regard to reducing cash outflows, and the commencement of services under a seven-year subcontract under a federal procurement, we anticipate that we will be able to meet our cash requirements for at least one year from the filing date of this Quarterly Report on Form 10-Q.

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. With the infrastructure now in place such that our employees can work almost entirely from their own homes, we believe we have more than adequate space to operate for the foreseeable future. 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.

Item 4. Controls and Procedures***Disclosure Controls and Procedures***

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2020 (the "Evaluation Date"). Based upon this evaluation, our Chief Executive Officer and Acting Principal 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 Acting Principal Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II - OTHER INFORMATION**Item 1. Legal Proceedings**

None.

Item 1A. Risk Factors

“Item 1A. Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2019, as amended, 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, 2019.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

10.11	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., dated August 13, 2020.
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 Principal 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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

Information Analysis Incorporated
(Registrant)

Date: August 14, 2020

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

Date: August 14, 2020

By: /s/ Matthew T. Sands
Matthew T. Sands, Acting Principal Financial Officer
and Controller

Exhibit 10.11

TD BANK
MODIFICATION AGREEMENT

This MODIFICATION AGREEMENT is entered into as of August 13, 2020, between Information Analysis Incorporated, a Virginia corporation, with an address of 11240 Waples Mill Road, Fairfax, Virginia 22030 (the "Borrower") and TD Bank, N.A., a National Association with an address of 1919 Gallows Road, 2nd Floor, Vienna, Virginia 22182 (the "Bank").

WHEREAS, the Bank established a revolving line of credit (the "Revolving Loan") for Borrower which matures on July 31, 2020 (the "Maturity Date") respecting which Bank agreed to lend to Borrower upon Borrower's request, but subject to the terms and conditions set forth in various loan documents, of up to One Million Dollars and Zero Cents (\$1,000,000.00) (the "Revolving Loan Amount");

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

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

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

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

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

1. MODIFICATION

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

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

1.3 Unused Fee: The Borrower shall pay a fee of 30 Basis Points per annum on the un-borrowed portion of the Revolving Term Commitment, payable quarterly in arrears.

1.4 Financial Reporting Requirements. Section 7 of the Business Loan Agreement dated December 20, 2005 shall be deleted in its entirety and replaced with the following:

Financial Statements. Borrower will furnish to Bank:

- (a) as soon as available to Borrower, but in any event within 45 days after the close of each quarterly period of its fiscal year, a full and complete signed copy of financial statements, which shall include a balance sheet of the Borrower, as at the end of such quarter, and statement of profit and loss of the Borrower reflecting the results of its operations during such quarter and shall be prepared by the Borrower and certified by Borrower's chief financial officer as to correctness in accordance with generally accepted accounting principles, consistently applied, subject to year-end adjustments;

- (b) as soon as available to Borrower, but in any event within 120 days after the close of each fiscal year, a full and complete signed copy of financial statements, prepared by certified public accountants acceptable to Bank, which shall include a balance sheet of the Borrower, as at the end of such year, statement of cash flows and statement of profit and loss of the Borrower reflecting the results of its operations during such year, bearing the opinion of such certified public accountants and prepared on an audited basis in accordance with generally accepted accounting principles, consistently applied together with any so-called management letter;
- (c) Upon each advance Borrower shall provide to Bank, an Accounts Receivable aging report in form satisfactory to Bank showing the total amount due from each account debtor, the month in which each Account Receivable was created, as well as an Accounts Payable aging report and such other information as Bank shall request;
- (d) Borrower's filed Federal tax returns, including all schedules thereto, for the prior year within 150 days of the end of Borrower's Fiscal Year each such year or by such other date approved by the Bank;
- (e) within 45 days after end of each quarter Borrower shall deliver Contract Backlog in form satisfactory to the Bank;
- (f) within 45 days after end of each quarter Borrower shall deliver Compliance Certificate in form satisfactory to the Bank;
- (g) Upon each advance Borrower shall provide to Bank shall deliver Borrowing Base Certificate in form satisfactory to the Bank;
- (h) Within 30 days of fiscal year end of the Borrower, an annual budget projection to include income statement and balance sheet for the following fiscal year.
- (i) from time to time, such financial data and information about Borrower as Bank may reasonably request; and
- (j) any financial data and information about any guarantors of the Obligations as Bank may reasonably request.

1.5 Financial Covenants. Section 8 of the Business Loan Agreement dated December 20, 2005 shall be deleted in its entirety and replaced with the following:

1.6 Financial Covenants. The Borrower will not at any time or during any fiscal period (as applicable) fail to be in compliance with any of the financial covenants in this section.

(a) Definitions. The following definitions shall apply to this Section:

- (i) "GAAP" shall mean Generally Accepted Accounting Principles in effect from time to time in the United States.
- (ii) "Tangible Net Worth" shall mean the book value of net worth (total assets - total liabilities) as set forth in the statement of financial position of the borrower determined in accordance with generally accepted accounting principals, minus the net book value of the following items (but only to the extent that such items are included in any determination of the total assets of the borrower): (i) good will, patents, trademarks, copyrights, trade names, customer lists, and other like intangible assets; (ii) receivables due from affiliates, subsidiaries or other related parties, include officers, employees or stockholders of the borrower; and (iii) any capitalized start-up or development expenses, and (iv) any write-up or reappraisal of the borrower's existing assets.

(b) Minimum Tangible Net Worth. The Borrower shall not permit its Tangible Net Worth to be less than \$1,000,000.00 plus 50% of positive net income not reduced by losses measured quarterly. Tested to be measured beginning with Q3 of Fiscal Year 2020.

- (c) Minimum Net Income. The Borrower shall not permit their Minimum Net Income to be less than \$1.00, at the end of each fiscal quarter. Must comply with any two of the four quarters plus annually, Annual test is cumulative.
- (d) Maintenance of Liquidity. Borrower and Guarantor shall maintain an unrestricted cash and cash equivalent balance (net of contingent liabilities, unsecured indebtedness and located in the United States) of no less than \$500,000.00, at the end of each fiscal quarter.

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

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

- (a) The person executing this Agreement is duly authorized to do so and to bind the Borrower to the terms hereof;
- (b) Each of the Loan Documents is a valid and legal binding obligation of the Borrower, enforceable in accordance with its terms, and is not subject to any defenses, counterclaims, or offsets of any kind;
- (c) All financial statements delivered to the Bank were true, accurate and complete, in all material respects, as of the date of delivery to the Bank;
- (d) Since the date of the Loan Documents there has been no material adverse change in the condition, financial or otherwise, of the Borrower, except as disclosed to the Bank in writing;
- (e) There exists no action, suit, proceeding or investigation, at law or in equity, before any court, board, administrative body or other entity, pending or threatened, affecting the Borrower or its property, wherein an unfavorable decision, ruling or finding would materially adversely affect the business operations, property or financial condition of the Borrower; and
- (f) There exists no event of default, or other circumstance that with the passage of time or giving of notice or both will become an event of default, under any of the Loan Documents.

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

2. MISCELLANEOUS

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

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

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

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

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

2.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement. Borrower/Guarantor explicitly consents to the electronic delivery of the terms of the transaction evidenced by this instrument. Borrower/Guarantor agrees that its present intent to be bound by this instrument may be evidenced by transmission of digital images of signed signature pages via facsimile, email, SMS or other digital transmission and affirms that such transmission indicates a present intent to be bound by the terms of this instrument and is deemed to be valid execution and delivery as though an original ink or electronic signature. Borrower/Guarantor shall deliver original executed signature pages to Bank, but any failure to do so shall not affect the enforceability of this instrument. An electronic image of this instrument (including signature pages) shall be as effective as an original for all purposes.

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

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

2.9 Further Assurances. The Borrower will from time to time execute and deliver to the Bank such documents, and take or cause to be taken, all such other further action, as the Bank may request in order to effect and confirm or vest more securely in the Bank all rights contemplated by this Agreement (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in the Collateral or to comply with applicable statute or law and to facilitate the collection of the Collateral (including, without limitation, the execution of stock transfer orders and stock powers, endorsement of promissory notes and instruments and notifications to obligors on the Collateral). To the extent permitted by applicable law, the Borrower authorizes the Bank to file financing statements, continuation statements or amendments without the Borrower's signature appearing thereon, and any such financing statements, continuation statements or amendments may be signed by the Bank on behalf of the Borrower, if necessary, and

may be filed at any time in any jurisdiction. The Bank may at any time and from time to time file financing statements, continuation statements and amendments thereto which contain any information required by the Virginia Uniform Commercial Code, Titles 8.1-8.10 Code of Virginia as amended from time to time (the "Code") for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether the Borrower is an organization, the type of organization and any organization identification number issued to the Borrower. The Borrower agrees to furnish any such information to the Bank promptly upon request. In addition, the Borrower shall at any time and from time to time take such steps as the Bank may reasonably request for the Bank (i) to obtain an acknowledgment, in form and substance satisfactory to the Bank, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for the Bank, (ii) to obtain "control" (as defined in the Code) of any Collateral comprised of deposit accounts, electronic chattel paper, letter of credit rights or investment property, with any agreements establishing control to be in form and substance satisfactory to Bank, and (iii) otherwise to insure the continued perfection and priority of the Bank's security interest in any of the Collateral and the preservation of its rights therein. The Borrower hereby constitutes the Bank its attorney-in-fact to execute, if necessary, and file all filings required or so requested for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; and such power, being coupled with an interest, shall be irrevocable until this Agreement terminates in accordance with its terms, all obligations of the Borrower to the Bank are irrevocably paid in full and the Collateral is released.

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

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

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

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

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

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

address shown above or as notified to the Bank and (ii) by serving the same upon such agent, and agrees that such service shall in every respect be deemed effective service upon Borrower.

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

Executed under seal on this day August 13, 2020.

Borrower:

Information Analysis Incorporated

By: /s/ Sandor Rosenberg
Sandor Rosenberg, Chief Executive Officer

Accepted: TD Bank, N.A.

By: /s/ _____
Name:
Title: Duly Authorized Representative

Exhibit 31.1

CERTIFICATIONS

I, Sandor Rosenberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Information Analysis Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2020

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

A signed original of this written statement required by Section 302 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATIONS

I, Matthew T. Sands, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Information Analysis Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2020

By: /s/ Matthew T. Sands
Matthew T. Sands, Acting Principal Financial Officer
and Controller

A signed original of this written statement required by Section 302 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Sandor Rosenberg, Chief Executive Officer of Information Analysis Incorporated, a Virginia corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

- 1 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: August 14, 2020

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

A signed original of this written statement required by Section 906 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Matthew T. Sands, Acting Principal Financial Officer of Information Analysis Incorporated, a Virginia corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

- 1 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: August 14, 2020

By: /s/ Matthew T. Sands
Matthew T. Sands, Acting Principal Financial Officer
and Controller

A signed original of this written statement required by Section 906 has been provided to Information Analysis Incorporated and will be retained by Information Analysis Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.