INFORMATION ANALYSIS INC
Form 10-K
April 02, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-22405
Information Analysis Incorporated
(Exact name of registrant as specified in its charter)

Virginia	54-1167364
(State or other jurisdiction ofincorporation or organization)	(I.R.S. EmployerIdentification No.)

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

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

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

None

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

Common Stock, par value $0.01 per share

(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the 7,146,068 shares of common stock held by non-affiliates of the registrant based on the closing price of the registrant's common stock on June 30, 2017, was approximately $2,143,820. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

As of March 28, 2018, there were 11,201,760 outstanding shares of the registrant's common stock.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for the 2018 Annual Meeting of Stockholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

This Form 10-K contains forward-looking statements regarding our business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements. Investors should read and understand the risk factors detailed here in our Form 10-K and in other filings with the Securities and Exchange Commission ("SEC"). These risks include, among others, the following:

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

terms specific to U.S. federal government contracts;

our failure to keep pace with a changing technological environment;

intense competition from other companies;

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

non-performance by our subcontractors and suppliers;

our failure to adequately integrate businesses we may acquire;

changes in the economic health of our non U.S. federal government customers; and

fluctuations in our results of operations and its impact on our stock price.

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

PART I

Item 1. Business

Overview of Market

Founded in 1979, Information Analysis Incorporated ("We", the "Company"), to which we sometimes refer as IAI, is in the business of developing and maintaining information technology (IT) systems, modernizing client information systems, and performing professional services to government and commercial organizations. Since its inception, we have performed software development and conversion projects for over 100 commercial and government customers including, but not limited to the U.S. Small Business Administration, CSRA (formerly Computer Sciences Corporation), IBM, Computer Associates, Sprint, Citibank, Department of Homeland Security, Treasury Department,

Department of Agriculture, Department of Energy, Department of Education, U.S. Army, U.S. Air Force, and Department of Veterans Affairs. At present, we primarily apply our technology, services and experience to developing web-based and mobile device solutions (including electronic forms conversions) for various agencies of the federal government, data analytics, and legacy software migration and modernization.

Digital Solutions Marketplace

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

Given executive level directives to improve outreach to its stakeholders, federal and state government agencies are now empowered to find means of facilitating dissemination of information quickly and efficiently. Government requirements are unique in that most government processes are based on forms. Many government agencies rely on thousands of internal and external forms to conduct their business. Any company that wishes to develop governmental web applications must competently address the forms issue. Adobe electronic forms related products resold and supported by IAI as a solutions partner are the predominant forms software in the federal government.

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

Legacy Migration and Modernization

The migration and modernization market is complex and diverse as to the multiple requirements clients possess to upgrade their older systems. Many large legacy systems remain in use because of the enormous cost to re-engineer these systems. Currently, the options available to modernize these systems are many and include introduction of new hardware systems, employing advanced software languages, and utilization of the Internet or Intranet to achieve desired efficiencies. All of these options are typically very expensive and time consuming because they require starting all over in defining requirements, designing structures, programming, and testing.

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

A segment of mainframe users is interested in simply updating their legacy systems without drastic rewritings to these systems in newer languages or adapting expensive enterprise products (such as SAP or Oracle) to their needs. These potential customers are looking for automated tools that can quickly and cost-effectively move applications onto cheaper computer platforms without the risk of failure. IAI, in conjunction with strategic partners, such as Micro Focus and Software Mining, offers its own conversion tool set and those of its partners in addressing this need and positioning us to uniquely deliver successful results. It is difficult to determine the exact size of this segment, but even a minor share of this market would represent significant prospective customers with meaningful opportunities. In December 2016, we were notified that IAI was one of a number of subcontractors that were part of a prime contractor's team that was awarded a contract with the Small Business Administration's (SBA) 504 loan program. Under the contract, IAI personnel provide analysis and modernization activities to the SBA program platform. IAI personnel worked extensively in calendar year 2017 on their assigned tasks and were significant team contributors to a successful implementation of the modernized application in first quarter 2018. As a side benefit on this project, IAI recruited a team of exceptional programmers versed in Adobe Cold Fusion technology, which was used extensively on the SBA 504 loan program. This added capability adds to our unique set of capabilities and differentiates us from other modernization companies.

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

Description of Business and Strategy

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

We are using the experience we have acquired as an Adobe solutions partner and reseller to help secure engagements for web-based applications requiring forms. The Adobe Experience Manager (AEM) products have evolved over the years into robust tools that can form the backbone of applications, especially those requiring forms and web content management. We have used this expertise to penetrate a number of federal government clients such as the Internal Revenue Service and Veterans Affairs and build sophisticated web applications at the Department of Homeland Security. One such application, a parking and transit subsidy tool, was cited for award recognition by the American Council for Technology – Industry Advisory Council (ACT-IAC) and Federal Computer Week’s Fed 100 Awards. Our knowledge of legacy system languages has been instrumental in connecting these web applications to legacy databases residing on mainframe computers. Our Company has built a core group of professionals that can continue to build this practice over the coming years.

Concentrating on the niche of electronic forms-related web applications (including securing digital content and documents) through our solutions partner relationship with Adobe AEM products, we have developed a cadre of professionals that can quickly and efficiently develop web applications. We will focus on federal government clients during 2018 and beyond and leverage the Company’s reputation with existing federal customers to penetrate other agencies. We will be able to reference successful projects completed or in development for various components of the Department of Homeland Security, the Department of Veterans Affairs, Federal Mediation and Conciliation Service, Department of Agriculture, Department of Education, General Services Administration, Army Reserve, and U.S. Air Force Logistics Command.

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

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

We recognize the need to enhance our service and product capabilities as a means of expanding our business base and maintaining growth in the future. To that end, over the last several years, we have aggressively pursued strategic business relationships with certain technology firms in our local area that have developed unique and innovative software-based products and services. These new business areas include, but are not limited to, legacy modernization applications and expanded product opportunities.

Where appropriate, we have entered into teaming arrangements or product reseller agreements with certain of these firms. These products and services are synergistic to our present business strategy and also allow us to expand into new business areas, both within the federal government and commercial sectors, without the expenditure of significant technical development dollars. Our partners benefit by our potential to leverage their new technology developments into our existing client base, as well as utilize our expertise and credibility in developing applications around their inventive products.

Since the mid-1990's we have migrated customers, both private firms and government agencies, from older computer languages generally associated with legacy computer systems to more modern languages used with current-day computer system platforms. As part of this modernization, many organizations wish to extend these legacy systems to interface with web-based applications. Our strategy has been to develop and/or acquire tools through strategic relationships that will facilitate the modernization process and differentiate our offerings in the marketplace.

In 2004, we aligned with Micro Focus, an established company in the legacy COBOL environment, to jointly participate in the conversion of large legacy mainframe systems to PC and Unix server platforms. Micro Focus has developed a suite of products that simplify the conversion process and enable the entry screens to be Internet accessible. As an authorized reseller and installer of the Micro Focus tools, our plan is to derive revenue from software sales and installation services as well as acquire supplementary programming services that typically may occur with each engagement.

We have structured our Company to address the wide range of requirements that we envision the market will demand. We believe that the use of our proprietary ICONS legacy conversion tools suite and that of our strategic partners will give us a competitive edge in performing certain conversions and migrations faster and more economically than many other vendors. The diverse capabilities of our staff in mainframe technology and client-server implementations help to assure that our staff can analyze the original systems properly to conduct accurate and thorough conversions both from a technical and business perspective. In addition, our modernization methodology has evolved over time through the successful completion of numerous conversion projects.

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

Our management will generally continue to explore ways to expand our current market spaces and develop new ones that may offer more opportunity. This may take the shape of organic growth or through acquisition or merger with other companies. In any event, IAI will be aggressive and will take more risks in terms of investment in business development, exploring the potential of diversified business opportunities, and seeking targets of acquisition.

In March 2017, we were awarded a subcontract as a small business team member of the prime contractor on the Defense Logistics Agency's (DLA) J6 Enterprise Technical Services (JETS) contract. The DLA JETS contract is a five-year, $6.015B ceiling, base Indefinite Delivery Indefinite Quantity (IDIQ) contract. JETS is a DLA contract vehicle for a full range of IT services as well as technical and management expertise that supports applications, software, hardware, infrastructure, and systems, across the DLA Enterprise. Additionally, this contract is available for use by other Department of Defense agencies and organizations.

In a further effort to expand our exposure to new IT opportunities reserved for certain government set-asides, we have entered into an SBA approved Mentor-Protégé agreement with Dodge City Communications Inc. (dba Federal City Contractors SDVOSB ("FEDCITY")). This three-year agreement, beginning on January 6, 2017, provides a mechanism for IAI, acting as a mentor, to provide certain forms of assistance including, but not limited to management, technical, administrative, contractual and business development to FEDCITY. This support is intended to facilitate FEDCITY's ongoing development as an effective government contractor and open the door to federal contracting opportunities and set-asides that favor such teaming arrangements between our two companies.

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

Backlog

As of December 31, 2017, we estimated our backlog at approximately $17.7 million over the next three years, of which $3.0 million was funded. This backlog consists of outstanding contracts and general commitments from current clients. We regularly provide services to certain clients on an as-needed basis without regard to a specific contract. General commitments represent those services which we anticipate providing to such clients during a twelve-month period.

Competition

In the ever-expanding realm of enterprise-based web content management systems, there are a number of small and large companies offering such software products and related consulting services. We believe that the Adobe Experience Manager product suite will continue to dominate in the future against such competition, including offerings such as Microsoft's SharePoint solution. AEM has performed well in the federal marketplace due to its full offering of powerful capabilities such as cloud integration and intuitive customization. Adobe Experience Manager is a solution that optimizes the authoring, management and delivery of digital media and content across owned channels, including Web, mobile, email, print and social communities. In 2016, Gartner named Adobe as a leader for the fourth year in a row in its Magic Quadrant for Mobile Application Development Platforms report. In addition, Gartner named Adobe as a leader in its 2016 Magic Quadrant for Digital Marketing Analytics research report.

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

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

Government Regulation

We are bound by various rules and regulations promulgated by the federal government and agencies thereunder. We have not experienced undue expense beyond those expenses normally incurred in our ordinary course of business in adhering to such rules and regulations. Since historically most of our business is derived from contracts either directly

with the U.S. federal government or as a subcontractor on behalf of U.S. federal government customers, most of our contracts are subject to termination at the election of the government.

Intellectual Property

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

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

Employees

As of December 31, 2017, we employed 23 full-time and 4 part-time individuals. In addition, we maintained subcontractor relationships with companies and individuals that add 7 individuals for professional information technology services. All of our billable professional employees have at least four years of related experience. For computer related services, we believe that the diverse professional opportunities and interaction among our employees contribute to maintaining a stable professional staff with limited turnover.

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

Available Information

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

Item 1A. Risk Factors

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

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

Since the U.S. federal government is our largest customer, both directly and with us as a subcontractor, changes in the funding priorities of the U.S. federal government may materially and adversely affect us if funding is cut or shifted away from the information technology services that we are equipped to provide. Additionally, changes in the way the government awards contracts may create a disadvantage for us to compete in certain markets.

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

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

terminate our existing contracts;

reduce potential future income from our existing contracts;

modify some of the terms and conditions in our existing contracts;

suspend or permanently prohibit us from doing business with the federal government or with any specific government agency;

impose fines and penalties;

subject the award of some contracts to protest or challenge by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new proposals for the contract or result in the termination, reduction or modification of the awarded contract;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Changes in the economic health of our largest non U.S. federal government customers could negatively impact our cash flow and earnings.

A few of our largest customers are non U.S. federal government customers. Should one or more of these customers experience economic hardships, it could have a material impact on our financial performance and cash flows.

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

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

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

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

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

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

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

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

There is a limited public market for our common stock.

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

Item 2. Properties

Our offices are located at 11240 Waples Mill Road, Fairfax, VA 22030. We hold a lease for 4,434 square feet. This lease expires on June 30, 2021. We believe that our current facility is suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

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

	2017 Quarter Ended:				2016 Quarter Ended:			
	03/31/17	06/30/17	09/30/17	12/31/17	03/31/16	06/30/16	09/30/16	12/31/16
High	$0.26	$0.35	$0.30	$0.42	$0.19	$0.19	$0.19	$0.18
Low	$0.14	$0.17	$0.19	$0.19	$0.12	$0.13	$0.14	$0.12

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

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

transactions of our shares.

Holders

As of December 31, 2017, we had 104 holders of record of our Common Stock.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

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

Equity Compensation Plan Information

	(a)	(b)	(c)
Equity compensation plans approved by security holders(1,2)	1,288,000	$0.21	778,000
Equity compensation plans not approved by security holders	-	-	-
Totals	1,288,000	$0.21	778,000

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

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

Recent Sales of Unregistered Securities

We had no sales of unregistered securities during 2017 that have not been previously disclosed in a Current Report on Form 8-K or Quarterly Reports on Form 10-Q.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not repurchase any of our equity securities during 2017.

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

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

Overview

In 2017 we generated net income of $246,000, an $800,000 positive swing from our 2016 net loss of $554,000. Our stockholders' equity was $1,894,000 at December 31, 2017, an increase of $262,000 over 2016's year-end balance. Our gross profit increased by $593,000 on an increase in total revenue of $3,912,000. The revenue increase includes a $1,612,000 increase in fees for professional services from new contracts and a $2,300,000 increase in software sales. Our selling, general and administrative expenses decreased $205,000, or 10.9%, in 2017.

Cash and cash equivalents increased $836,000 due mostly to our income from operations and decreases in the dollar amount of receivables and prepaid expenses outstanding at year-end for 2017 and 2016, respectively. We were able to operate throughout 2017 without borrowing against our line of credit.

Results of Operations

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

	Years ended December 31,	
	2017	2016
Revenues		
Professional fees	47.0%	50.4%
Software sales	53.0%	49.6%
Total revenues	100.0%	100.0%
Cost of revenues		
Cost of professional fees	25.6%	28.2%
Cost of software sales	51.7%	44.7%
Total cost of revenues	77.3%	72.9%
Gross profit	22.7%	27.1%
Operating expenses		
Selling, general and administrative expenses	15.8%	27.9%
Commissions expense	4.7%	7.6%
Income (loss) from operations	2.2%	(8.4%)
Other income	0.1%	0.2%
Income (loss) before provision for income taxes	2.3%	(8.2%)
Provision for income taxes	0.0%	0.0%
Net income (loss)	2.3%	(8.2%)

2017 Compared to 2016

Revenue. Total revenue for 2017 increased $3,912,000, or 58.1%, to $10.64 million from $6.73 million in 2016. Revenue from professional services fees increased $1,611,000 or 47.5%, to $5.00 million in 2017 from $3.39 million in 2016. The increase in our revenue from professional services fees is primarily due to the addition of new contracts,

one of which added over $2.00 million in revenue. Revenue from software sales increased $2,300,000, or 68.9%, to $5.64 million in 2017 from $3.34 million in 2016. This increase includes one transaction that added $1.69 million to software sales revenue. Despite the increases in software sales revenue, revenue from commissions earned on registered transactions for facilitating software sales between third parties decreased $205,000. Software product and maintenance sales and commissions on registered sales are subject to considerable fluctuation from period to period, based on the product mix sold and customer demand. Revenue from software sales comprised 53.0% of total sales in 2017, compared to 49.6% of total sales in 2016.

Gross Profit. Gross profit increased $593,000, or 32.5%, in 2017 versus 2016. Gross profit on professional fees revenue is generally higher than gross profit on software sales, as gross profit on software sales is more dependent on the costs from third-party suppliers, and revenue is generally based on increasingly-competitive bidding in which identical products (commodities) are offered by all bidders. Overall gross profit as a percentage of revenue decreased to 22.7% of revenue in 2017 from 27.1% of revenue in 2016. Gross profit from professional fees for 2017 was $2,280,000, or 45.6% of professional fees revenue, while gross profit for 2016 from professional fees was $1,497,000, or 44.1% of professional fees revenue. For software sales, gross profit percentage decreased to 2.4% in 2017 from 9.7% in 2016 due to lower available margins, especially on larger enterprise transactions, and due to a decrease of $205,000 in our commissions earned from facilitating third party software transactions, for which we incur little direct cost.

Selling, General and Administrative. Selling, general and administrative expense for 2017 decreased $205,000 to $1.67 million, or 15.7% of revenue, from $1.88 million, or 27.9% of revenue, in 2016. The decrease is due mostly to decreases in sales labor cost, technical training costs, and costs of bids and proposals.

Commission Expense. Commission expense in 2017 was $504,000, or 4.7% of revenue, versus $507,000, or 7.5%, in 2016. Commission expenses vary based on income generated from contracts sold by our commission-based sales associates.

Outlook. In January 2017, we began work on a contract that added approximately $2.0 million in revenue in 2017. That contract is expected to continue to generate revenue exceeding $1.4 million in 2018, and that subcontractor relationship is expected to yield additional opportunities. In addition, we will aggressively pursue other professional services opportunities and relationships to build on the success of 2017. In March 2018, we were awarded a new General Services Administration (“GSA”) Multiple Award Schedule contract for Information Technology services. The award has a base period of five years, with the possibility of three five-year option periods. The new GSA schedule contract replaces our previous GSA schedule contract, which expires in November 2018.

Recent Accounting Pronouncements

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

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

Liquidity and Capital Resources

Our beginning cash and cash equivalents balance, when combined with our cash flow from operations, were sufficient to provide financing for our operations. For 2017, net cash provided by operating and investing activities was $836,138. Our net cash provided, when added to a beginning balance of $1,895,372, yielded cash and cash equivalents of $2,731,510 at December 31, 2017. Our accounts receivable balances decreased $541,673 due to a combination of more timely collections and to the timing of larger software sales transactions. Our accounts payable and accrued expenses balances increased $83,197 due largely to the additional payroll expenses we incur to work on the contracts added in 2017. Our prepaid expenses and other current assets accounts decreased $294,930, and our deferred revenue accounts decreased $228,033. Our prepaid expenses and deferred revenue accounts are largely composed of the costs and revenue, respectively, of sales of software maintenance contracts for which we recognize the costs and revenue ratably over the life of the maintenance contract. We had no non-current liabilities at December 31, 2017.

We have a revolving line of credit with a bank providing for demand or short-term borrowings of up to $1,000,000. The line became effective December 20, 2005, and expires on May 31, 2018. As of December 31, 2017, no amounts were outstanding under this line of credit. We did not borrow against this line of credit in 2017.

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

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

We have no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

The Company earns revenue from both professional services and sales of software and related support. The Company recognizes revenue when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered probable and can be reasonably estimated. Revenue from professional services is earned under time and materials and fixed-price contracts. For sales of third-party software products, revenue is recognized upon product delivery, with any maintenance related revenues recognized ratably over the maintenance period.

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

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

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

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The Company reports revenue on both gross and net bases on a transaction by transaction analysis using authoritative guidance issued by the Financial Accounting Standards Board (the “FASB”). The Company considers the following factors to determine the gross versus net presentation: if the Company (i) acts as principal in the transaction; (ii) takes title to the products; (iii) has risks and rewards of ownership, such as the risk of loss for collection, delivery or return; and (iv) acts as an agent or broker (including performing services, in substance, as an agent or broker) with compensation on a commission or fee basis. Generally, sales of third-party software products such as Adobe and Micro Focus products are reported on a gross basis with the Company acting as the principal in these arrangements. This determination is based on the following: 1) the Company has inventory risk as suppliers are not obligated to accept returns, 2) the Company has reasonable latitude, within economic constraints, in establishing price, 3) the Company, in its marketing efforts, frequently aids the customer in determining product specifications, 4) the Company has physical loss and inventory risk as title transfers at the shipping point, 5) the Company bears full credit risk, and 6) the amount the Company earns in the transaction is neither a fixed dollar amount nor a fixed percentage. Generally, revenue derived for facilitating a sales transaction of Adobe products in which a customer introduced by the Company makes a purchase directly from the Company’s supplier or another designated reseller is recognized on a net basis when the commission payment is received since the Company is merely acting as an agent in these arrangements. Since the Company is not a direct party in the sales transaction, payment by the supplier is the Company’s confirmation that the sale occurred.

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

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

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

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

Prompt payment discounts taken and expected to be taken by customers in conjunction with orders received under the Company’s General Services Administration Multiple Award Schedule (“GSA Schedule”) are reflected as a reduction in the Company’s revenue.

Effects of Inflation

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

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Information Analysis Incorporated

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Information Analysis Incorporated (the “Company”) as of December 31, 2017 and 2016, and the related statements of operations and comprehensive income (loss), changes in stockholders’ equity and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United Stated of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ CohnReznick LLP

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

Tysons, Virginia
April 2, 2018

INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$2,731,510	$1,895,372
Accounts receivable, net	615,714	1,157,387
Prepaid expenses and other current assets	368,626	663,556
Notes receivable	1,719	2,630
Total current assets	3,717,569	3,718,945
Property and equipment, net of accumulated depreciation and amortization of $284,667 and $407,302	11,133	27,198
Other assets	6,281	6,281
Total assets	$3,734,983	$3,752,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$47,658	$48,974
Commissions payable	712,829	853,340
Other accrued liabilities	411,487	396,081
Deferred revenue	387,002	615,035
Accrued payroll and related liabilities	275,582	206,475
Franchise taxes payable	6,400	-
Total liabilities	1,840,958	2,119,905
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.01 par value, 30,000,000 shares authorized, 12,844,376 shares issued, 11,201,760 shares outstanding as of December 31, 2017 and 2016	128,443	128,443
Additional paid-in capital	14,646,406	14,631,362
Accumulated deficit	(11,950,613)	(12,197,075)
Treasury stock, 1,642,616 shares at cost at December 31, 2017 and 2016	(930,211)	(930,211)
Total stockholders' equity	1,894,025	1,632,519
Total liabilities and stockholders' equity	$3,734,983	$3,752,424

The accompanying notes are an integral part of the financial statements

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

	For the years ended December 31,	
	2017	2016
Revenues		
Professional fees	$5,003,908	$3,392,358
Software sales	5,636,695	3,336,435
Total revenues	10,640,603	6,728,793
Cost of revenues		
Cost of professional fees	2,723,501	1,894,898
Cost of software sales	5,501,673	3,011,233
Total cost of revenues	8,225,174	4,906,131
Gross profit	2,415,429	1,822,662
Selling, general and administrative expenses	1,673,762	1,879,208
Commissions expense	503,893	506,908
Income (loss) from operations	237,774	(563,454)
Other income	8,688	9,773
Income (loss) before provision for income taxes	246,462	(553,681)
Provision for income taxes	-	-
Net income (loss)	$246,462	$(553,681)
Comprehensive income (loss)	$246,462	$(553,681)
Net income (loss) per commion share - basic	$0.02	$(0.05)
Net income (loss) per commion share - diluted	$0.02	$(0.05)
Weighted average common shares outstanding		
Basic	11,201,760	11,201,760
Diluted	11,583,578	11,201,760

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Issued	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances, December 31, 2015	12,844,376	$128,443	$14,622,352	$(11,643,394)	$(930,211)	$2,177,190
Net loss				(553,681)		(553,681)
Stock option compensation			9,010			9,010
Balances, December 31, 2016	12,844,376	128,443	14,631,362	(12,197,075)	(930,211)	1,632,519
Net Income				246,462		246,462
Stock option compensation			15,044			15,044
Balances, December 31, 2017	12,844,376	$128,443	$14,646,406	$(11,950,613)	$(930,211)	$1,894,025

The accompanying notes are an integral part of the financial statements

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INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	$246,462	$(553,681)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,905	28,258
Stock option compensation	15,044	9,010
Bad debt expense	-	7,635
Changes in operating assets and liabilities		
Accounts receivable	541,673	133,007
Prepaid expenses and other current assets	294,930	(60,216)
Accounts payable, accrued payroll and related liabilities, and other accrued liabilities	83,197	251,257
Deferred revenue	(228,033)	33,933
Commissions payable	(140,511)	(105,712)
Franchise taxes payable	6,400	-
Net cash provided by (used in) operating activities	836,067	(256,509)
Cash flows from investing activities		
Acquisition of property and equipment	(840)	(13,417)
Payments received on notes receivable	3,411	3,138
Increase in notes receivable	(2,500)	(5,768)
Net cash provided by (used in) investing activities	71	(16,047)
Net increase (decrease) in cash and cash equivalents	836,138	(272,556)
Cash and cash equivalents, beginning of the year	1,895,372	2,167,928
Cash and cash equivalents, end of the year	$2,731,510	$1,895,372
Supplemental cash flow Information		
Interest paid	$-	$-
Franchise taxes paid	$800	$-

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1.
Summary of Significant Accounting Policies

Operations

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

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. 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.

Revenue Recognition

The Company earns revenue from both professional services and sales of software and related support. The Company recognizes revenue when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered probable and can be reasonably estimated. Revenue from professional services is earned under time and materials and fixed-price contracts. For sales of third-party software products, revenue is recognized upon product delivery, with any maintenance related revenues recognized ratably over the maintenance period.

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

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

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

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

The Company reports revenue on both gross and net bases on a transaction by transaction analysis using authoritative guidance issued by the Financial Accounting Standards Board (the “FASB”). The Company considers the following factors to determine the gross versus net presentation: if the Company (i) acts as principal in the transaction; (ii) takes title to the products; (iii) has risks and rewards of ownership, such as the risk of loss for collection, delivery or return; and (iv) acts as an agent or broker (including performing services, in substance, as an agent or broker) with compensation on a commission or fee basis. Generally, sales of third-party software products such as Adobe and Micro Focus products are reported on a gross basis with the Company acting as the principal in these arrangements. This determination is based on the following: 1) the Company has inventory risk as suppliers are not obligated to accept returns, 2) the Company has reasonable latitude, within economic constraints, in establishing price, 3) the Company, in its marketing efforts, frequently aids the customer in determining product specifications, 4) the Company has physical loss and inventory risk as title transfers at the shipping point, 5) the Company bears full credit risk, and 6) the amount the Company earns in the transaction is neither a fixed dollar amount nor a fixed percentage. Generally, revenue derived for facilitating a sales transaction of Adobe products in which a customer introduced by the Company makes a purchase directly from the Company’s supplier or another designated reseller is recognized on a net basis when the commission payment is received since the Company is merely acting as an agent in these arrangements. Since the Company is not a direct party in the sales transaction, payment by the supplier is the Company’s confirmation that the sale occurred.

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

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

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

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

Prompt payment discounts taken and expected to be taken by customers in conjunction with orders received under the Company’s General Services Administration Multiple Award Schedule (“GSA Schedule”) are reflected as a reduction in the Company’s revenue.

Segment Reporting

The Company has concluded that it operates in one business segment, providing products and services to modernize client information systems.

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consist of trade accounts receivable and do not bear interest. The Company typically does not require collateral from its customers. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts monthly. Accounts with receivable balances past due over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. The Company has recorded an allowance for doubtful accounts of $0 at December 31, 2017 and 2016. Prompt payment discounts offered and expected to be taken by customers in conjunction with orders received under the Company's GSA Schedule are reflected as a reduction in the Company's accounts receivable.

Notes Receivable

The Company has an outstanding note receivable and accrued interest from one non-officer employee at December 31, 2017. It bears interest at 3.5% and is payable semi-monthly in 18 installments through September 24, 2018.

The Company had outstanding notes receivable and accrued interest from two non-officer employees at December 31, 2016. The first bore interest at 3.5% and was payable semi-monthly in 36 installments through August 10, 2017. The second bore interest at 3.5% and was payable semi-monthly in 36 installments through September 22, 2017.

Property and Equipment

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

Stock-Based Compensation

At December 31, 2017, the Company had the stock-based compensation plans described in Note 9 below. Total compensation expense related to these plans was $15,044 and $9,010 for the years ended December 31, 2017 and 2016, respectively. The Company estimates the fair value of options granted using a Black-Scholes valuation model to establish the expense. When stock-based compensation is awarded to employees, the expense is recognized ratably over the vesting period. When stock-based compensation is awarded to non-employees, the expense is recognized over the period of performance.

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Income Taxes

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

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to: (i) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (ii) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (iii) creating a new limitation on deductible interest expense; and (iv) changing rules related to uses and limitations of net operating carryforwards created in tax years beginning after December 31, 2017; and (v) changing the U.S. federal taxation of earnings of foreign subsidiaries.

As a result, the Company believes the most significant impact on its financial statements will be the reduction of approximately $1,870,800 of the deferred tax assets related to net operating losses and other deferred tax assets. Such reduction is offset by a change in the Company’s valuation allowance.

Earnings (Loss) Per Share

The Company’s earnings (loss) per share calculations are based upon the weighted average number of shares of common stock outstanding. The dilutive effect of stock options, warrants and other equity instruments are included for purposes of calculating diluted earnings (loss) per share, except for periods when the Company reports a net loss, in which case the inclusion of such equity instruments would be antidilutive. 381,818 shares representing the dilutive effect of stock options were included in diluted earnings per share for the year ended December 31, 2017. 27,568 shares representing the dilutive effect of stock options were excluded from diluted earnings (loss) per share for the year ended December 31, 2016, due to the net loss reported for the period.

Concentration of Credit Risk

In the year ended December 31, 2017, our prime contracts with U.S. government agencies generated 70.9% of our revenue, subcontracts under federal procurements generated 23.2% of our revenue, and 5.9% of our revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Within this group of prime contracts with U.S. government agencies, three individual contracts generated 15.8% 12.4%, and 8.1% of our revenue, respectively. One subcontract under a federal procurement generated 18.8% of our revenue.

In the year ended December 31, 2016, our prime contracts with U.S. government agencies generated 75.0% of our revenue, subcontracts under federal procurements generated 12.0% of our revenue, and 13.0% of our revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Within this group of prime contracts with U.S. government agencies, three individual contracts generated 19.5%, 10.3% and 9.0% of our revenue, respectively. One commercial customer generated 8.3% of our revenue.

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INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

The Company sold third party software and maintenance contracts under agreements with one major supplier in 2017, accounting for 52.7% of total revenue. In 2016, the Company sold third party software and maintenance contracts under agreements with two major suppliers, accounting for 49.6% of total revenue.

At December 31, 2017, the Company's accounts receivable included receivables from prime contracts with one U.S. government agency that represented 17.8% of the Company's outstanding accounts receivable, and receivables from two subcontracts under federal procurements that represented 35.2% and 10.6% of the Company's outstanding accounts receivable, respectively.

At December 31, 2016, the Company's accounts receivable included receivables from prime contracts with two U.S. government agencies that represented 39.1% and 30.0% of the Company's outstanding accounts receivable, respectively.

Related Party Transactions

The Company's Director of Human Resources is the spouse of the Senior Vice President and Chief Operating Officer of the Company. During the years ended December 31, 2017 and 2016, she earned wages of $136,705 and $133,309, respectively, as an employee of the Company.

Mark T. Krial, a member of the Company's Board of Directors, currently serves as president of Marathon TS, Inc. ("Marathon"), an IT and professional services firm which serves the federal government and commercial markets. Revenues from Marathon totaled $14,271 and $11,349 during the years ended December 31, 2017 and 2016, respectively.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB, or other standard setting bodies, that the Company adopts as of the specified effective date.

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). In subsequent ASU's, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers: Topic 606", ASU 2016-08 "Principal versus Agent Considerations (Reporting Revenue Gross Versus Net), ASU 2016-10 "Identifying Performance Obligations and Licensing", ASU 2016-12 "Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients", and ASU 2016-20 "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers" (collectively "Topic 606") to amend and clarify ASU 2014-09. This new set of standards will supersede nearly all existing revenue recognition guidance in GAAP. The core principle of Topic 606 is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to receive for those goods and services. The standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard allows entities to apply either of two adoption methods: (a) retrospective application to each prior reporting period presented with the option to elect certain practical expedients as defined within Topic 606 ("Retrospective Transition;" or (b) retrospective application with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per Topic 606. The effective date for Topic 606 is for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

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INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

We will adopt the requirements of Topic 606 effective January 1, 2018, using the Retrospective Transition method, whereby Topic 606 will be applied to the prior year as presented with the use of certain applicable practical expedients, and any effects on periods preceding the periods reported will appear as an adjustment to retained earnings as of the beginning of the earliest period reported. As the ASU supersedes substantially all existing revenue guidance affecting us under current GAAP, it will impact revenue and cost recognition across the whole of our business, as well as our business processes and our information technology systems.

We began our evaluation of the impact of Topic 606 in early 2017 by evaluating its impact on selected contracts of each type under which we operate. With this baseline understanding, we developed a project plan to evaluate the remainder of our contracts, develop processes and tools to dual-report financial results under both current GAAP and Topic 606, and assess the internal control structure in order to adopt Topic 606 on January 1, 2018. We have briefed our Audit Committee on our progress made towards adoption. Adoption of Topic 606 will not have a material impact on our financial statements.

We currently operate under time-and-materials, fixed-price, fixed-price-per-unit, and fixed-term third-party software license and/or third-party software maintenance contracts. Some of these contracts involve more than one type of deliverable, which adds complexity to the application of Topic 606.

Under Topic 606, revenue will be recognized as the customer obtains control of the goods and services promised in the contract (i.e., performance obligations). Given the nature of our professional services and the terms and conditions in our contracts, the customer generally obtains control as we perform work under the contract. Therefore, we expect to recognize revenue over time for substantially all of our professional services contracts, while we expect to recognize revenue over time, at a point in time, or some of each for our software sales contracts, based on what was sold and whether we have any continuing performance obligations, such as the obligation to provide first-line support under a maintenance contract supporting third-party software.

Under Topic 606, guidance related to principal versus agent considerations rely heavily on control of an asset before delivery over some of the considerations used under previous guidance, including the negotiation of selling price and credit risk of the seller. This will likely lead to the reclassification of a percentage of our software sales transactions to be reported on a net sales basis, rather than on a gross sales basis, as Topic 606 guidance shifts our responsibility from a principal seller to an agent. This reclassification will not affect the Company’s net operating results.

In February 2016, the FASB issued ASU 2016-02, “Leases: Topic 842,” which provided updated guidance on lease accounting. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that annual period, with early adoption permitted. The Company does not expect the adoption of this new standard will have a material impact on its financial statements. When adopted, the Company’s operating lease for office space will be presented as a right-of-use asset and as an offsetting liability for the present value of the contractual cash flows. The Company does not currently have any other material lease obligations.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” to provide additional guidance and reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance will have a material impact on its financial statements.

2.
Receivables

Accounts receivable at December 31, 2017 and 2016, consist of the following:

	2017	2016
Billed federal government	$560,942	$693,321
Billed commercial and other	49,240	67,201
Total billed	610,182	760,522
Unbilled	5,532	396,865
Allowance for doubtful accounts	-	-
Accounts receivable, net	$615,714	$1,157,387

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

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3.
Fair Value Measurements

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1—Quoted prices in active markets for identical assets or liabilities;

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents the fair value hierarchy for our financial assets (cash equivalents) measured at fair value on a recurring basis as of December 31, 2017 and 2016:

	Level 1	Level 2	Level 3
December 31, 2017			
Money market funds	$2,120,269	$-	$-
Total	$2,120,269	$-	$-
December 31, 2016			
Money market funds	$1,611,799	$-	$-
Total	$1,611,799	$-	$-

Money market funds are highly liquid investments. The pricing information on these investment instruments are readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

The carrying amount of financial instruments such as accounts receivable, accounts payable, and accrued liabilities approximate the related fair value due to the short-term maturities of these instruments.

4.
Property and Equipment

A summary of fixed assets and equipment at December 31, 2017 and 2016, consist of the following:

	2017	2016
Furniture and equipment	$75,747	$110,042
Computer equipment and software	213,239	317,644
Leasehold improvements	6,814	6,814
Subtotal	295,800	434,500
Less: accumulated depreciation and amortization	(284,667)	(407,302)
Total	$11,133	$27,198

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Depreciation and amortization expense for the years ended December 31, 2017 and 2016, was $16,905 and $28,258, respectively.

5.
Revolving Line of Credit

On December 20, 2005, the Company entered into a revolving line of credit agreement with TD Bank providing for demand or short-term borrowings up to $1,000,000. The credit agreement includes an interest rate indexed to 3.00% above the Intercontinental Exchange Benchmark Administration Ltd. London Interbank Offered Rate ("ICE LIBOR"). The line of credit will next expire on May 31, 2018. The draws against the line are limited by varying percentages of the Company's eligible accounts receivable. The draw limit at December 31, 2017 was $489,627. The bank is granted a security interest in all of the Company's assets if there are borrowings under the line of credit. Interest on outstanding balances is payable monthly. The effective rate at December 31, 2017 was 4.511%. At December 31, 2016, the effective rate was 3.744%.

The bank has a first priority security interest in the Company's receivables and a direct assignment of its U.S. federal government contracts. Under the line of credit agreement, the Company is bound by certain covenants, including maintaining a minimum tangible net worth and producing a number of periodic financial reports for the benefit of the bank. There was no outstanding balance on the line of credit at December 31, 2017 or 2016.

6.
Commitments and Contingencies

Operating Leases

The Company leases its facility under a long-term operating lease agreement through May 2021. Rent expense was $103,007 and $99,994 for the years ended December 31, 2017 and 2016, respectively.

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

Year ending December 31,:	2018	$103,512
	2019	106,617
	2020	109,846
	2021	55,719
Total minimum rent payments		$375,694

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

7.
Income Taxes

The tax effects of significant temporary differences representing deferred tax assets at
December 31, 2017 and 2016, are as follows:

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NOTES TO FINANCIAL STATEMENTS

	2017	2016
Deferred tax assets (liabilities)		
Net operating loss carryforwards	$3,889,200	$5,702,400
Accrued commissions	154,400	285,900
Accrued vacation	29,400	32,500
AMT tax credit carryforward	-	6,600
Fixed assets	(25,500)	(2,100)
Other	6,000	6,000
Subtotal	4,053,500	6,031,300
Valuation allowance	(4,053,500)	(6,031,300)
Total	$-	$-

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

	December 31,	
	2017	2016
Income (loss) before taxes	$246,462	$(553,681)
Income tax expense (benefit) on above amount at federal statutory rate	$83,800	$(188,300)
State income tax expense (benefit), net of federal expense (benefit)	9,900	(22,100)
Permanent differences	7,500	6,000
Other	5,800	49,600
Tax Cuts & Jobs Act of 2017	1,870,800	-
Change in valuation allowance	(1,977,800)	154,800
Provision for income taxes	$-	$-

Income tax expense for the years ended December 31, 2017 and 2016 consists of the following:

	December 31,	
Current income taxes	2017	2016
Federal	$16,300	$-
State	2,400	-
Alternative minimum tax	-	-
Benefit from utilization of net operating losses	(18,700)	-

Subtotal	-	-
Deferred taxes	-	-
Provision for income taxes	$-	$-

The Company has recorded a valuation allowance to the full extent of its currently available net deferred tax assets which the Company determined to be not more-likely-than-not realizable. The Company has net operating loss carryforwards of approximately $15.0 million, which expire, if unused, between the years 2018 and 2036.

The Company may have been deemed to have experienced changes in ownership which may impose limitations on its ability to utilize net operating loss carryforwards under Section 382 of the Internal Revenue Code. However, as the deferred tax asset is fully offset by a valuation allowance, the Company has not yet conducted a Section 382 study to determine the extent of any such limitations.

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The Company has analyzed its income tax positions using the criteria required by U.S. GAAP and concluded that as of December 31, 2017 and 2016, it has no material uncertain tax positions and no interest or penalties have been accrued. The Company has elected to recognize any estimated penalties and interest on its income tax liabilities as a component of its provision for income taxes.

The income tax returns of the Company for 2014, 2015, and 2016 are subject to examination by income taxing authorities, generally for three years after each was filed.

8.
Retirement Plans

The Company has a Cash or Deferred Arrangement Agreement ("CODA"), which satisfies the requirements of Section 401(k) of the Internal Revenue Code. This defined contribution retirement plan covers substantially all employees. Participants can elect to have up to the maximum percentage allowable of their salaries reduced and contributed to the plan. The Company may make matching contributions equal to a discretionary percentage of the participants' elective deferrals. In 2017 and in 2016, the Company matched 25% of the first 6% of the participants' elective deferrals. The balance of funds forfeited by former employees from unvested employer matching contribution accounts may be used to offset current and future employer matching contributions. The Company may also make additional contributions to all eligible employees at its discretion. The Company did not make additional contributions during 2017 or 2016. Expenses for matching contributions for the years ended December 31, 2017 and 2016 were $31,116 and $27,463, respectively.

9.
Stock Options and Warrants

During the year ended December 31, 2017, the Company had two 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. Generally such options vest over periods of six months to two years. The fair values of option awards granted in 2017 and 2016 were estimated using the Black-Sholes option pricing model under the following assumptions:

	2017	2016
Risk-free interest rate	1.87% - 2.06%	0.70%- 1.73%
Dividend yield	0%	0%
Expected term	5 years	2-10 years
Expected volatility	44.6% - 47.0%	34.9% - 50.4%

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 when employment ceases, 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 December 31, 2017, there were 222,000 options issued under the 2016 Plan, none of which were yet exercisable.

INFORMATION ANALYSIS INCORPORATED
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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. The maximum number of shares for which equity awards could be granted under the 2006 Plan was 1,950,000. Options under the 2006 Plan expire no later than ten years from the date of grant or when employment ceases, whichever comes first, and vest over periods determined by the Board of Directors. There were 1,056,000 and 1,268,000 unexpired exercisable options remaining from the 2006 Plan at December 31, 2017 and 2016, respectively.

The status of the options issued under the foregoing option plans as of December 31, 2017, and changes during the year ended December 31, 2017, was as follows:

Options outstanding			
		Weighted average	Weighted average
		exercise price	remaining
Incentive Options	Shares	per share	contractual term
Outstanding at January 1, 2017	1,313,000	$0.22	
Options granted	222,000	0.35	
Options exercised	-	-	
Options expired	(222,000)	0.40	
Options forfeited	(25,000)	0.14	
Outstanding at December 31, 2017	1,288,000	$0.21	5 years, 1 month
Exercisable at December 31, 2017	1,056,000	$0.18	5 years, 1 month

Nonvested stock option awards as of December 31, 2017, and changes during the year ended December 31, 2017, were as follows:

Nonvested		
		Weighted average
		grant date
	Shares	fair value
Nonvested at January 1, 2017	45,000	$0.07

Granted	222,000	0.10
Vested	(15,000)	0.06
Forfeited	(25,000)	0.05
Nonvested at December 31, 2017	227,000	$0.10

As of December 31, 2017, unrecognized compensation cost associated with non-vested share based employee and non-employee compensation totaled $7,103, which is expected to be recognized over a weighted average period of 4 months.

INFORMATION ANALYSIS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

10.
Earnings (Loss) Per Share

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

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

	Net income (loss)	Shares	Per share amount
Basic net income per common share for the year ended December 31, 2017:			
Income available to common shareholders	$246,462	11,201,760	$0.02
Effect of dilutive stock options	-	381,818	-
Diluted net income per common share for the year ended December 31, 2017:	$246,462	11,583,578	$0.02
Basic net loss per common share for the year ended December 31, 2016:			
Loss available to common shareholders	$(553,681)	11,201,760	$(0.05)
Effect of dilutive stock options	-	-	-
Diluted net loss per common share for the year ended December 31, 2016:	$(553,681)	11,201,760	$(0.05)

11.
Financial Statement Captions

The following table summarizes the Company’s prepaid expenses and other current assets as of December 31, 2017 and 2016:

	2017	2016
Deferred costs of software sales	$300,558	$596,724
ISO 9001	15,427	18,166
Prepaid insurance	14,500	13,774

Prepaid rent	8,499	8,883
Other	29,642	26,009
Total	$368,626	$663,556

The following table summarizes the Company's other current liabilities as of December 31, 2017 and 2016:

	2017	2016
Accrued costs of software sales	$337,560	$337,560
Accrued accounting and auditing expense	49,500	46,500
Other	24,427	12,021
Total	$411,487	$396,081

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosures

During the last two years, for which financial statements are presented herein, there have been no changes in or disagreements with our independent registered accountants on accounting and financial disclosures.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm.

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement to be filed pursuant to Section 14(a) of the Exchange Act with respect to our 2018 Annual Meeting of Stockholders.)

Item 11. Executive Compensation

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement to be filed pursuant to Section 14(a) of the Exchange Act with respect to our 2018 Annual Meeting of Stockholders.)

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

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement to be filed pursuant to Section 14(a) of the Exchange Act with respect to our 2018 Annual Meeting of Stockholders.)

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

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement to be filed pursuant to Section 14(a) of the Exchange Act with respect to our 2018 Annual Meeting of Stockholders.)

Item 14. Principal Accounting Fees and Services

(The information required by this Item is incorporated by reference from the corresponding sections and subsections of our Definitive Proxy Statement to be filed pursuant to Section 14(a) of the Exchange Act with respect to our 2018 Annual Meeting of Stockholders.)

PART IV
Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

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Statements of Operations and Comprehensive Income (loss) for the years ended December 31, 2017 and 2016	19
Statements of Changes in Stockholders' Equity for the years ended December 31, 2017 and 2016	20
Statements of Cash Flows for the years ended December 31, 2017 and 2016	21
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Signatures

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

INFORMATION ANALYSIS
INCORPORATED
(Registrant)

By: /s/ Sandor Rosenberg
Sandor Rosenberg, President
April 2, 2018

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ Sandor Rosenberg Sandor Rosenberg	Chairman of the Board, Chief Executive Officer and President	April 2, 2018
/s/ Mark T. Krial Mark T. Krial	Director	April 2, 2018
/s/ Charles A. May Jr. Charles A. May	Director	April 2, 2018
/s/ William Pickle William Pickle	Director	April 2, 2018
/s/ Bonnie K. Wachtel Bonnie K. Wachtel	Director	April 2, 2018
/s/ James D. Wester James D. Wester	Director	April 2, 2018

/s/ Richard S. DeRose Richard S. DeRose	Chief Financial Officer, Secretary and Treasurer	April 2, 2018
/s/ Matthew T. Sand Matthew T. Sand	Controller	April 2, 2018

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Exhibit Index

Exhibit No.	Description	Location
3.1	Amended and Restated Articles of Incorporation effective March 18, 1997	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
3.2	Articles of Amendment to the Articles of Incorporation	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1997 and filed on March 30, 1998
3.3	Amended By-Laws of the Company	Incorporated by reference from the Registrant's Form S-18 dated November 20, 1986 (Commission File No. 33-9390).
4.1	Copy of Stock Certificate	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1997 and filed on March 30, 1998
10.1	Office Lease for 18,280 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030.	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
10.2	Company's 401(k) Profit Sharing Plan through Aetna Life Insurance and Annuity Company (now ING).	Incorporated by reference from the Registrant's Form 10-KSB/A for the fiscal year ending December 31, 1996 and filed on July 3, 1997
10.3	1996 Stock Option Plan	Incorporated by reference from the Registrant's Form S-8 filed on June 25, 1996
10.4	Second Modification of Lease, dated February 10, 2004, to 4,434 square feet at 11240 Waples Mill Road, Fairfax, Virginia 22030	Incorporated by reference from the Registrant's Form 10-KSB for the period ended December 31, 2003, and filed on March 30, 2004
10.5	Termination and/or change in control arrangement for Richard S. DeRose dated June 18, 1997	Incorporated by reference from the Registrant's Form 10-KSB for the year ended December 31, 2004, and filed on March 30, 2005
10.6	Line of Credit Agreement with TD Bank, N.A. (formerly Commerce Bank, N.A.)	Incorporated by reference from the Registrant's Form 10-KSB for the year ended December 31, 2005, and filed on March 31, 2006
10.7	Information Analysis Incorporated 2006 Stock Incentive Plan	Incorporated by reference from the Registrant's definitive proxy statement on Schedule 14A filed on April 19, 2006
10.8	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated July 18, 2008.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2008, and filed on March 31, 2009
10.9	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated December 29, 2009.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2009, and filed on March 31, 2010

Exhibit No.	Description	Location
10.10	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated November 30, 2012.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2012, and filed on March 29, 2013
10.11	Fifth Modification of Lease, dated February 6, 2013, to extend term of lease four years.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2012, and filed on March 29, 2013
10.12	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated November 26, 2013.	Incorporated by reference from the Registrant's Form 10-K for the period ended December 31, 2013, and filed on March 31, 2014
10.13	Eighth Amendment to Loan Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated April 21, 2015.	Incorporated by reference from the Registrant's Form 10-Q for the period ended March 31, 2015, and filed on May 15, 2015
10.14	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated May 26, 2016.	Incorporated by reference from the Registrant's Form 10-Q for the period ended June 30, 2016, and filed on August 11, 2016
10.15	Sixth Modification of Lease, dated December 9, 2016, to extend term of lease four years.	Incorporated by reference from the Registrant's Form 10-K for the year ended December 31, 2016, and filed on March 31, 2017
10.16	Modification Agreement regarding Line of Credit Agreement with TD Bank, N.A., successor to Commerce Bank, N.A., dated May 28, 2017.	Incorporated by reference from the Registrant's Form 10-Q for the period ended June 30, 2017, and filed on August 14, 2017
23.1	Consent of Independent Registered Public Accounting Firm, CohnReznick LLP	Filed with this Form 10-K
31.1	Rule 13a-14(a) / 15a-14(a) Certification by Chief Executive Officer	Filed with this Form 10-K
31.2	Rule 13a-14(a) / 15a-14(a) Certification by Chief Financial Officer	Filed with this Form 10-K
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Form 10-K
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Form 10-K