INFORMATION ANALYSIS INC
Form 10-Q
August 14, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from to

Commission File Number 000-22405

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

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

11240 Waples Mill Road
Suite 201
Fairfax, Virginia 22030

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 þ No o

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

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

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

As of August 10, 2015, 11,201,760 shares of common stock, par value $0.01 per share, of the registrant were outstanding.

INFORMATION ANALYSIS INCORPORATED
FORM 10-Q

Index

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS

	June 30, 2015 (Unaudited)	December 31, 2014 (see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$2,399,099	$2,450,006
Accounts receivable, net	796,979	970,621
Prepaid expenses and other current assets	340,367	759,982
Notes receivable, current	-	3,896
Total current assets	3,536,445	4,184,505
Property and equipment, net	47,449	53,675
Notes receivable, long-term	-	5,102
Other assets	6,281	6,281
Total assets	$3,590,175	$4,249,563
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$125,208	$32,327
Commissions payable	951,224	1,017,047
Deferred revenue	315,459	737,994
Accrued payroll and related liabilities	240,617	255,703
Other accrued liabilities	42,038	116,097
Total liabilities	1,674,546	2,159,168
Stockholders' equity:		
Common stock, par value $0.01, 30,000,000 shares authorized; 12,844,376 shares issued, 11,201,760 shares outstanding as of June 30, 2015 and December 31, 2014	128,443	128,443
Additional paid-in capital	14,619,601	14,613,887
Accumulated deficit	(11,902,204)	(11,721,724)
Treasury stock, 1,642,616 shares at cost	(930,211)	(930,211)
Total stockholders' equity	1,915,629	2,090,395
Total liabilities and stockholders' equity	$3,590,175	$4,249,563

The accompanying notes are an integral part of the financial statements

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

	For the three months ended June 30, 2015	2014
Revenues:		
Professional fees	$997,435	$789,054
Software sales	312,438	235,253
Total revenues	1,309,873	1,024,307
Cost of revenues:		
Cost of professional fees	592,259	479,751
Cost of software sales	281,411	227,387
Total cost of revenues	873,670	707,138
Gross profit	436,203	317,169
Selling, general and administrative expenses	434,274	425,989
Commissions expense	100,193	55,076
Loss from operations	(98,264)	(163,896)
Other income	2,615	2,597
Loss before provision for income taxes	(95,649)	(161,299)
Provision for income taxes	-	-
Net loss	$(95,649)	$(161,299)
Comprehensive loss	$(95,649)	$(161,299)
Net loss per common share:		
Basic	$(0.01)	$(0.01)
Diluted	$(0.01)	$(0.01)
Weighted average common shares outstanding:		
Basic	11,201,760	11,201,760
Diluted	11,201,760	11,201,760

The accompanying notes are an integral part of the financial statements

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

	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Revenues:		
Professional fees	$2,112,531	$1,664,314
Software sales	673,465	539,803
Total revenues	2,785,996	2,204,117
Cost of revenues:		
Cost of professional fees	1,235,543	977,579
Cost of software sales	629,995	455,092
Total cost of revenues	1,865,538	1,432,671
Gross profit	920,458	771,446
Selling, general and administrative expenses	866,368	871,808
Commissions expense	239,664	163,752
Loss from operations	(185,574)	(264,114)
Other income	5,094	5,296
Loss before provision for income taxes	(180,480)	(258,818)
Provision for income taxes	-	-
Net loss	$(180,480)	$(258,818)
Comprehensive loss	$(180,480)	$(258,818)
Net loss per common share:		
Basic	$(0.02)	$(0.02)
Diluted	$(0.02)	$(0.02)
Weighted average common shares outstanding:		
Basic	11,201,760	11,201,760
Diluted	11,201,760	11,201,760

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net loss	$(180,480)	$(258,818)
Adjustments to reconcile net loss to net cash		
used in operating activities:		
Depreciation and amortization	15,360	15,482
Stock option compensation	5,714	8,805
Bad debt expense	107	-
Forgiveness of note receivable	7,863	-
Changes in operating assets and liabilities:		
Accounts receivable	173,535	551,413
Prepaid expenses and other current assets	419,615	98,121
Accounts payable, accrued payroll and related liabilities, and other accrued liabilities	3,736	(572,855)
Commissions payable	(65,823)	(150,039)
Deferred revenue	(422,535)	(110,356)
Net cash used in operating activities	(42,908)	(418,247)
Cash flows from investing activities:		
Acquisition of furniture and equipment	(9,134)	(17,705)
Payments received on notes receivable	1,135	2,758
Net cash used in investing activities	(7,999)	(14,947)
Net decrease in cash and cash equivalents	(50,907)	(433,194)
Cash and cash equivalents, beginning of the period	2,450,006	2,359,527
Cash and cash equivalents, end of the period	$2,399,099	$1,926,333
Supplemental cash flow information		
Interest paid	$-	$-
Income taxes paid	$-	$-

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

Organization and Business

Information Analysis Incorporated (“IAI”, or 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.

Unaudited Interim Financial Statements

The accompanying unaudited financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the unaudited financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair and not misleading presentation of the results of the interim periods presented. These unaudited financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2014 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 20, 2015 (the “Annual Report”). The accompanying December 31, 2014 financial information was derived from our audited financial statements included in the Annual Report. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

There have been no changes in the Company’s significant accounting policies as of June 30, 2015 as compared to the significant accounting policies disclosed in Note 1, "Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31. 2014 that was filed with the SEC on March 20, 2015.

Use of Estimates and Assumptions

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

Income Taxes

As of June 30, 2015, there have been no material changes to the Company’s uncertain tax position disclosures as provided in Note 7 of the Annual Report. The Company does not anticipate that total unrecognized tax benefits will significantly change prior to June 30, 2015.

Note 2 - Recent Accounting Pronouncements

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

In May 2014, FASB issued Accounting Standards Update ("ASU") No. 2014-09 ("Topic 606"), "Revenue from Contracts with Customers." This new standard will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU 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 ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates and changes in those estimates. The ASU will be effective for the Company beginning January 1, 2017, and allows for both retrospective and modified-retrospective methods of adoption. The Company is in the process of determining the method of adoption it will elect and is currently assessing the impact of this ASU on its financial statements and footnote disclosures.

3. Stock-Based Compensation

At June 30, 2015, the Company had two stock-based compensation plans described in Note 9 of the Annual Report. Total compensation expense related to these plans was $2,843 and $3,551 for the quarters ended June 30, 2015 and 2014, respectively, of which $0 and $0, respectively, related to options awarded to non-employees. Total compensation expense related to these plans was $5,714 and $8,805 for the six months ended June 30, 2015 and 2014, 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. The fair values of option awards granted in the three months and six months ended June 30, 2015 and 2014, were estimated using the Black-Scholes option pricing model using the following assumptions:

	Three Months ended June 30,		Six Months ended June 30,	
	2015	2014	2015	2014
Risk free interest rate	1.61 – 1.97%	1.77%	1.61 – 1.97%	1.77%
Dividend yield	0%	0%	0%	0%
Expected term	5-10 years	5 years	5-10 years	5 years
Expected volatility	41.2 – 54.2%	47.3%	41.2 – 54.2%	47.3%

The status of the options issued as of June 30, 2015 and changes during the six months ended June 30, 2015 and 2014 were as follows:

	Options outstanding	
	Number of shares	Weighted average exercise price per share
Balance at December 31, 2014	1,264,000	$0.26
Options granted	20,000	0.20
Options exercised	--	--
Options expired or forfeited	(1,000)	0.24
Balance at March 31, 2015	1,283,000	$0.26
Options granted	--	--
Options exercised	--	--
Options expired or forfeited	(5,000)	0.52
Balance at June 30, 2015	1,278,000	$0.25

	Options outstanding	
	Number of shares	Weighted average exercise price per share
Balance at December 31, 2013	1,187,000	$0.26
Options granted	--	--
Options exercised	--	--

Options expired or forfeited	--	--
Balance at March 31, 2014	1,187,000	$0.26
Options granted	1,000	0.24
Options exercised	--	--
Options expired or forfeited	(3,000)	0.11
Balance at June 30, 2014	1,185,000	$0.26

8

3. Stock-Based Compensation (continued)

The following table summarizes information about options at June 30, 2015:

Options outstanding				Options exercisable			
Total shares	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value	Total shares	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value
1,278,000	$0.25	5.13	$ 19,128	1,064,500	$0.27	4.40	$ 13,777

Nonvested stock awards as of June 30, 2015 and changes during the six months ended June 30, 2015 were as follows:

	Nonvested	
	Number of shares	Weighted average grant date fair value
Balance at December 31, 2014	209,500	$0.07
Granted	20,000	0.11
Vested	(5,000)	0.08
Expired before vesting	(1,000)	0.10
Balance at March 31, 2015	223,500	$0.08
Granted	--	--
Vested	(10,000)	0.09
Expired before vesting	--	--
Balance at June 30, 2015	213,500	$0.07

As of June 30, 2015 and 2014, unrecognized compensation cost associated with non-vested share-based compensation totaled $3,958 and $8,018, respectively, which are expected to be recognized over weighted average periods of 5 months and 6 months, respectively.

4. Loss Per Share

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

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

	Net Loss	Shares	Per Share Amount
Basic net loss per common share for the three months ended June 30, 2015:			
Loss available to common stockholders	$(95,649)	11,201,760	$ (0.01)
Effect of dilutive stock options	-	-	-

Diluted net loss per common share for the three months ended June 30, 2015	$(95,649)	11,201,760	$	(0.01)
Basic net loss per common share for the three months ended June 30, 2014:				
Loss available to common stockholders	$(161,299)	11,201,760	$	(0.01)
Effect of dilutive stock options	-	-		-
Diluted net loss per common share for the three months ended June 30, 2014	$(161,299)	11,201,760	$	(0.01)

9

4. Loss Per Share (continued)

	Net Loss	Shares	Per Share Amount
Basic net loss per common share for the six months ended June 30, 2015:			
Loss available to common stockholders	$ (180,480)	11,201,760	$ (0.02)
Effect of dilutive stock options	-	-	-
Diluted net loss per common share for the six months ended June 30, 2015	$ (180,480)	11,201,760	$ (0.02)
Basic net loss per common share for the six months ended June 30, 2014:			
Loss available to common stockholders	$ (258,818)	11,201,760	$ (0.02)
Effect of dilutive stock options	-	-	-
Diluted net loss per common share for the six months ended June 30, 2014	$ (258,818)	11,201,760	$ (0.02)

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

Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding our business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements. Investors should read and understand the risk factors detailed in our Form 10-K for the fiscal year ended December 31, 2014 and in other filings with the Securities and Exchange Commission.

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

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

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “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.

Our Business

Founded in 1979, IAI is in the business of modernizing client information systems, developing and maintaining information technology systems, developing electronic forms, and performing consulting services to government and commercial organizations. We have performed software conversion projects for over 100 commercial and government customers, including Computer Sciences Corporation, IBM, Computer Associates, Sprint, Citibank, U.S. Department of Homeland Security, U.S. Treasury Department, U.S. Department of Agriculture, U.S. Department of

Education, U.S. Department of Energy, U.S. Army, U.S. Air Force, U.S. Department of Veterans Affairs, and the Federal Deposit Insurance Corporation. Today, we primarily apply our technology, services and experience to legacy software migration and modernization for commercial companies and government agencies, and to developing web-based solutions for agencies of the U.S. federal government.

In the three months ended June 30, 2015, four of our customers - two of which are U.S. government agencies with which we contract directly, one of which is a company under which we subcontract for services to U.S. government agencies, and one of which is a commercial customer - represented material portions of our revenue. These customers collectively accounted for 67.6% of our revenue.. The two U.S. government agency customers accounted for 27.7% and 13.3%, respectively, of revenue, the company under which we subcontract for services to U.S. government agencies accounted for 13.6% of revenue, and the commercial customer accounted for 13.0% of revenue in the second quarter of 2015. In the six months ended June 30, 2015, these two U.S. government agency customers accounted for 25.5% and 13.6%, respectively, of revenue, the company under which we subcontract for services to U.S. government agencies accounted for 13.8% of revenue, and the commercial customer accounted for 11.8% of revenue in the first six months of 2015.

In the three months ended June 30, 2014, four of our customers - two of which are U.S. government agencies with which we contract directly, one of which is a company under which we subcontract for services to U.S. government agencies, and one of which is a commercial customer - represent material portions of our revenue. These customers collectively accounted for 69.5% of our revenue.. The two U.S. government agency customers accounted for 24.2% and 18.5%, respectively, of revenue, the company under which we subcontract for services to U.S. government agencies accounted for 12.1% of revenue, and the commercial customer accounted for 14.7% of revenue in the second quarter of 2014. In the six months ended June, 30, 2014, these two U.S. government agency customers accounted for 20.7% and 16.5%, respectively, of revenue, the company under which we subcontract for services to U.S. government agencies accounted for 10.3% of revenue, and the commercial customer accounted for 14.4% of revenue.

Three Months Ended June 30, 2015 versus Three Months Ended June 30, 2014

Revenue

Our revenues in the second quarter of 2015 were $1,309,873 compared to $1,024,307 in 2014, an increase of 27.9%. Professional fees revenue was $997,435 versus $789,054, an increase of 26.4%, and software product and maintenance revenue was $312,438 versus $235,253, an increase of 32.8%. The increase in our professional fees revenue is due to some U.S. federal government prime contracts and subcontracts that did not exist in the second quarter of 2014. The increase in our software product and maintenance revenue is due to software and maintenance sales related to the professional fees contracts that did not exist in the second quarter of 2014, as well as referral fees for facilitating third-party software and maintenance sales, for which none were recognized in the second quarter of 2014. Software product and maintenance sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold.

Gross Profit

Gross profit was $436,203, or 33.3% of revenue in the second quarter of 2015 versus $317,169, or 31.0% of revenue in the second quarter of 2014. For the quarter ended June 30, 2015, $405,176 of the gross profit was attributable to professional fees at a gross profit percentage of 40.6%, and $31,027 of the gross profit was attributable to software sales at a gross profit percentage of 9.9%. In the same quarter in 2014, we reported gross profit of $309,303, or 39.2% of sales for professional fees and $7,866, or 3.3% of sales for software sales. Gross profit on professional fees increased with the increases in professional fees revenue, and the percentage of sales on professional fees was consistent with the corresponding prior year period. Gross profit on software sales increased in terms of dollars due to software and maintenance sales related to the professional fees contracts that did not exist in the second quarter of 2014, and as a percentage of revenue due to a larger portion of the 2015 revenue having come from referral fees for facilitating third-party sales, for which there were no direct costs incurred by us. If we exclude these referral fees, the 2015 and 2014 gross profit percentages would be 3.0% and 2.9%, respectively. Software product sales and sales referral fees and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were $434,274, or 33.2% of revenues, in the second quarter of 2015 versus $425,989, or 41.6% of revenues, in the second quarter of 2014. These expenses increased $8,285, or 1.9%, due to additional sales staff.

Commissions expense was $100,193, or 7.6% of revenues, in the second quarter of 2015 versus $55,076, or 5.4% of revenues, in the second quarter of 2014. This increase of $45,117, or 81.9%, is due to the increases in revenue and gross profits on commissionable professional services contracts, which drive commission earned at varying rates for each salesperson.

Net Loss

Net loss for the three months ended June 30, 2015, was $95,649, or 7.3% of revenue, versus net loss of $161,299, or 15.7% of revenue, for the same period in 2014.

Six Months Ended June 30, 2015 versus Six Months Ended June 30, 2014

Revenue

Our revenues in the six months ended June 30, 2015 were $2,785,996 compared to $2,204,117 in the first six months of 2014, an increase of $581,879, or 26.4%. Professional services revenue was $2,112,531 versus $1,664,314, an increase of 26.9%, and software product and maintenance revenue was $673,465 versus $539,803, an increase of 24.8%. The increase in our professional fees revenue is due to some U.S. federal government prime contracts and subcontracts that did not exist in the second quarter of 2014. The increase in our software product and maintenance revenue is due primarily to software and maintenance sales related to the professional fees contracts that did not exist in the second quarter of 2014, which more than offset expirations of older maintenance contracts. Software product and maintenance sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold and the mediums through which contracts are won.

Gross Profit

Gross profit was $920,458, or 33.0% of revenue in the first six months of 2015 versus $771,446, or 35.0% of revenue, in the first six months of 2014. For the six months ended June 30, 2015, $876,988 of the gross profit was attributable to professional services at a gross profit percentage of 41.5%, and $43,470 of the gross profit was attributable to software sales at a gross profit percentage of 6.5%. In the same period in 2014, we reported gross profits of $686,735, or 41.3% of sales for professional services and $84,711, or 15.7% of revenue for software sales. Gross profit on professional fees increased with the increases in professional fees revenue, and the percentage of revenue on professional fees was consistent with the corresponding prior year period. Gross profit and gross profit as a percentage of revenue on software sales decreased due to a decrease of $46,844 in referral fees for facilitating third-party software and maintenance sales, for which there are little to no direct costs incurred by us. Software product sales and associated profits are subject to considerable fluctuation from period to period, based on the product mix sold.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were $866,368, or 31.1% of revenues, in the first six months of 2015 versus $871,808, or 39.6% of revenues, in the first six months of 2014. These expenses decreased $5,440, or 0.6%, due largely to decreases in the costs of fringe benefits associated with non-billable labor, the use of temporary non-billable personnel, the costs of bids and proposals, recruiting fees, offset by increases in non-billable labor costs, including the additional sales personnel.

Commissions expense was $239,664, or 8.6% of revenues, in the second quarter of 2015 versus $163,752, or 7.4% of revenues, in the second quarter of 2014. This increase of $75,912, or 46.4%, is due to the increases in revenue, gross profits, and operating income on commissionable contracts, which drive commission earned at varying rates for each salesperson.

Net Loss

Net loss for the six months ended June 30, 2015, was $180,480, or 6.5% of revenue, versus $258,818, or 11.7% of revenue, for the same period in 2014.

Liquidity and Capital Resources

Our cash and cash equivalents balance, when combined with our cash flow from operations during the first six months of 2015, were sufficient to provide financing for our operations. Our net cash used in the combination of our operating, investing, and financing activities in the first six months of 2015 was $50,907. This net cash used, when subtracted from a beginning balance of $2,450,006 yielded cash and cash equivalents of $2,399,099 as of June 30, 2015. Our accounts receivable balances decreased $173,642 due largely to the receipt of funds due on invoices that had been delayed in payment due to a customer’s debt reorganization proceedings. Prepaid expenses and other current assets decreased $419,615 due to the allocation over time of prepaid expenses associated with the maintenance contracts on software sales. Deferred revenue decreased $422,535 due to the recognition of revenue over time from maintenance contracts on software sales, and commissions payable decreased $65,823. We had no non-current liabilities as of June 30, 2015.

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, 2016. As of June 30, 2015, no amounts were outstanding under this line of credit.

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

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.

We have no off-balance sheet arrangements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2015 (the "Evaluation Date"). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

"Item 1A. Risk Factors" of our annual report on Form 10-K for the year ended December 31, 2014 includes a discussion of our risk factors. There have been no material changes from the risk factors described in our annual report on Form 10-K for the year ended December 31, 2014.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

	Information Analysis Incorporated (Registrant)	
Date: August 14, 2015	By:	/s/ Sandor Rosenberg
		Sandor Rosenberg, Chairman of the Board, Chief Executive Officer, and President
Date: August 14, 2015	By:	/s/ Richard S. DeRose
		Richard S. DeRose, Executive Vice President, Treasurer, and Chief Financial Officer