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, 2013

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	Smaller reporting company	þ
(Do not check if a smaller reporting company)			

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

As of August 09, 2013, 11,201,760 shares of common stock, par value $0.01 per share, of the registrant were outstanding.

INFORMATION ANALYSIS INCORPORATED
FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS
(Unaudited)

	June 30, 2013		December 31, 2012 (see Note 1)	
ASSETS				
Current assets				
Cash and cash equivalents	$	2,442,076	$	2,623,016
Accounts receivable, net		744,287		738,044
Prepaid expenses and other current assets		304,430		191,406
Note receivable, current		3,872		2,410
Total current assets		3,494,665		3,554,876
Property and equipment, net		42,170		39,226
Note receivable, long-term		10,652		3,885
Other assets		6,281		6,281
Total assets	$	3,553,768	$	3,604,268
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$	291,001	$	111,585
Commissions payable		756,566		806,133
Deferred revenue		284,710		220,424
Accrued payroll and related liabilities		213,779		269,716
Other accrued liabilities		40,936		48,401
Total current liabilities		1,586,992		1,456,259
Stockholders' equity				
Common stock, par value $0.01, 30,000,000 shares authorized; 12,844,376 shares issued, 11,201,760 shares outstanding as of June 30, 2013 and December 31, 2012		128,443		128,443
Additional paid-in capital		14,588,902		14,581,475
Accumulated deficit		(11,820,358)		(11,631,698)
Treasury stock, 1,642,616 shares at cost		(930,211)		(930,211)
Total stockholders' equity		1,966,776		2,148,009
Total liabilities and stockholders' equity	$	3,553,768	$	3,604,268

The accompanying notes are an integral part of the financial statements

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

(Unaudited)

	For the three months ended June 30, 2013	2012
Revenues		
Professional fees	$899,090	$1,362,747
Software sales	219,120	1,071,844
Total revenues	1,118,210	2,434,591
Cost of revenues		
Cost of professional fees	522,780	698,997
Cost of software sales	192,044	1,018,864
Total cost of revenues	714,824	1,717,861
Gross profit	403,386	716,730
Selling, general and administrative expenses	438,268	464,333
Commissions on sales	103,569	202,520
(Loss) income from operations	(138,451)	49,877
Other income	1,932	1,567
(Loss) income before provision for income taxes	(136,519)	51,444
Provision for income taxes	-	-
Net (loss) income	$(136,519)	$51,444
Comprehensive (loss) income	$(136,519)	$51,444
(Loss) income per common share:		
Basic	$(0.01)	$0.00
Diluted	$(0.01)	$0.00
Weighted average common shares outstanding:		
Basic	11,201,760	11,199,782
Diluted	11,201,760	11,211,582

The accompanying notes are an integral part of the financial statements

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

(Unaudited)

	For the six months ended June 30, 2013	2012
Revenues		
Professional fees	$2,079,896	$2,527,996
Software sales	355,363	1,420,585
Total revenues	2,435,259	3,948,581
Cost of revenues		
Cost of professional fees	1,213,423	1,375,630
Cost of software sales	305,386	1,323,533
Total cost of revenues	1,518,809	2,699,163
Gross profit	916,450	1,249,418
Selling, general and administrative expenses	892,548	872,413
Commissions on sales	215,875	351,169
(Loss) income from operations	(191,973)	25,836
Other income	3,313	3,058
(Loss) income before provision for income taxes	(188,660)	28,894
Provision for income taxes	-	-
Net (loss) income	$(188,660)	$28,894
Comprehensive (loss) income	$(188,660)	$28,894
(Loss) income per common share:		
Basic	$(0.02)	$0.00
Diluted	$(0.02)	$0.00
Weighted average common shares outstanding:		
Basic	11,201,760	11,198,271
Diluted	11,201,760	11,215,117

The accompanying notes are an integral part of the financial statements

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INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Cash flows from operating activities		
Net (loss) income	$(188,660)	$28,894
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities		
Depreciation and amortization	11,496	13,021
Stock-based compensation	7,427	3,363
Bad debt expense	-	1,020
Changes in operating assets and liabilities:		
Accounts receivable	(6,243)	1,831,513
Prepaid expenses and other current assets	(113,024)	341,017
Accounts payable and accrued expenses	116,014	(815,986)
Deferred revenue	64,286	(496,884)
Commissions payable	(49,567)	102,926
Income taxes	-	(2,800)
Net cash (used in) provided by operating activities	(158,271)	1,006,084
Cash flows from investing activities		
Capital expenditures	(14,440)	(11,618)
Increase in note receivable	(10,000)	(10,023)
Payments received on note receivable	1,771	3,305
Net cash used in investing activities	(22,669)	(18,336)
Cash flows from financing activities		
Proceeds from exercise of stock options	-	350
Net cash provided by financing activities	-	350
Net (decrease) increase in cash and cash equivalents	(180,940)	988,098
Cash and cash equivalents, beginning of the period	2,623,016	1,280,926
Cash and cash equivalents, end of the period	$2,442,076	$2,269,024
Supplemental cash flow information		
Interest paid	$-	$-
Income taxes paid	$-	$2,800

The accompanying notes are an integral part of the financial statements

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INFORMATION ANALYSIS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

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

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

2. Summary of Significant Accounting Policies

Revenue Recognition

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

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

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

For fixed-price contracts in which the Company is paid a specific amount to be available to provide a particular service for a stated period of time, revenue is recognized ratably over the service period. The Company applies this method of revenue recognition to renewals of maintenance contracts on third-party software sales from prior years and to separable 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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2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Note Receivable

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

Stock-Based Compensation

Total stock-based compensation expense was $3,940 and $1,787 for the quarters ended June 30, 2013 and 2012, respectively, none of which related to options awarded to non-employees. For the six months ended June 30, 2013 and 2012, total compensation expense was $7,427 and $3,363, respectively, of which $0 and $550, respectively, related to options awarded to non-employees. The Company estimates the fair value of options granted using the Black-Scholes valuation model to establish the expense. When stock-based compensation is awarded to employees, the expense is recognized ratably over the vesting period. When stock-based compensation is awarded to non-employees, the expense is recognized over the period of performance.

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2. Summary of Significant Accounting Policies (continued)

Income Taxes

As of June 30, 2013, there have been no material changes to the Company’s uncertain tax position disclosures as provided in Note 7 of the Annual Report. The Company does not anticipate that total unrecognized tax benefits will significantly change prior to June 30, 2014.

3. Stock-Based Compensation

There were 20,000 option awards granted to employees and no option awards granted to non-employees in the three months ended June 30, 2013 and there were 42,500 option awards granted to employees and no option awards granted to non-employees in the three months ended June 30, 2012. There were 180,000 option awards granted to employees and no option awards granted to non-employees in the six months ended June 30, 2013 and there were 102,500 option awards granted to employees and 5,000 option awards granted to non-employees in the six months ended June 30, 2012. The fair values of option awards granted in the three months and six months ended June 30, 2013 and 2012 were estimated using the Black-Scholes option pricing model using the following assumptions:

	Three Months ended June 30,		Six Months ended June 30,	
	2013	2012	2013	2012
Risk free interest rate	0.70%	0.75 – 1.10%	0.70 – 0.90%	0.75 – 2.31%
Dividend yield	0%	0%	0%	0%
Expected term	5 years	5 years	5 years	5-10 years
Expected volatility	62.2%	62.8%	62.2 - 62.8%	62.8 – 67.9%

The status of the options issued as of June 30, 2013 and changes during the six months ended June 30, 2013 and 2012, were as follows:

	Options outstanding	
	Number of shares	Weighted average price per share
Balance at December 31, 2012	1,032,500	$ 0.29
Options granted	160,000	0.16
Options exercised, expired or forfeited	(10,000)	0.15
Balance at March 31, 2013	1,182,500	0.28
Options granted	20,000	0.18
Options exercised, expired or forfeited	(226,000)	0.22
Balance at June 30, 2013	976,500	$ 0.29

	Number of shares	Weighted average price per share
Balance at December 31, 2011	1,003,000	$ 0.31

Options granted	65,000		0.15
Options exercised, expired or forfeited	(28,000	)	0.36
Balance at March 31, 2012	1,040,000		0.30
Options granted	42,500		0.15
Options exercised	(5,000	)	0.07
Options expired or forfeited	(20,000	)	0.20
Balance at June 30, 2012	1,057,500	$	0.29

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3. Stock-Based Compensation (continued)

The following table summarizes information about options at June 30, 2013:

Options outstanding				Options exercisable			
Total shares	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value	Total shares	Weighted average exercise price	Weighted average remaining contractual life in years	Aggregate intrinsic value
976,500	$ 0.29	5.81	$ 6,295	773,250	$ 0.32	4.82	$ 4,170

Nonvested stock awards as of June 30, 2013 and changes during the six months ended June 30, 2013 were as follows:

	Nonvested	
	Number of shares	Weighted average grant date fair value
Balance at December 31, 2012	112,250	$ 0.08
Granted	160,000	0.08
Vested	(50,000)	0.08
Balance at March 31, 2013	222,250	0.08
Granted	20,000	0.09
Vested	(39,000)	0.08
Balance at June 30, 2013	203,250	$ 0.08

As of June 30, 2013 and 2012, unrecognized compensation cost associated with non-vested share-based employee and non-employee compensation totaled $10,267 and $6,598, respectively, which are expected to be recognized over weighted average periods of 5 months and 7 months, respectively.

4. (Loss) Earnings Per Share

Basic (loss) earnings 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, 2013:			
Loss available to common stockholders	$ (136,519)	11,201,760	$ (0.01)

Effect of dilutive stock options		-	-		-
Diluted net loss per common share for the three months ended June 30, 2013:	$	(136,519)	11,201,760	$	(0.01)
Basic net income per common share for the three months ended June 30, 2012:					
Income available to common stockholders	$	51,444	11,199,782	$	0.00
Effect of dilutive stock options		-	11,800		-
Diluted net income per common share for the three months ended June 30, 2012:	$	51,444	11,211,582	$	0.00

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4. Loss Per Share (continued)

	Net Loss		Shares	Per Share Amount	
Basic net loss per common share for the six months ended June 30, 2013:					
Loss available to common stockholders	$	(188,660)	11,201,760	$	(0.02)
Effect of dilutive stock options		-	-		-
Diluted net loss per common share for the six months ended June 30, 2013:	$	(188,660)	11,201,760	$	(0.02)
Basic net income per common share for the six months ended June 30, 2012:					
Income available to common stockholders	$	28,894	11,198,271	$	0.00
Effect of dilutive stock options		-	16,846		-
Diluted net income per common share for the six months ended June 30, 2012:	$	28,894	11,215,117	$	0.00

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "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, and performing consulting services to government and commercial organizations. We have performed software conversion projects for over 100 commercial and government customers, including Computer Sciences Corporation, IBM, Computer Associates, Sprint, Citibank, U.S. Department of Homeland Security, U.S. Treasury Department, U.S. Department of Agriculture, U.S. Department of Energy, U.S. Army, U.S. Air Force, U.S. Department of Veterans Affairs, and the Federal Deposit Insurance Corporation. Today, we primarily apply our technology, services and experience to legacy software migration and modernization for commercial companies and government agencies, and to developing web-based solutions for agencies of the U.S. federal government.

Four of our customers - one of which is a U.S. government agency with which we contract directly, two of which are companies with 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 accounted for 31.2% (direct), 15.9% and 12.8% (under subcontract), and 13.4% (commercial) of revenue in the second quarter of 2013. These customers accounted for 24.4% (direct), 19.4% and 17.0% (under subcontract), and 13.0% (commercial) of revenue in the first six months of 2013.

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Three Months Ended June 30, 2013 versus Three Months Ended June 30, 2012

Revenue
Our revenues in the second quarter of 2013 were $1,118,210 compared to $2,434,591 in 2012, a decrease of 54.1%. Professional fees revenue was $899,090 versus $1,362,747, a decrease of 34.0%, and software product and maintenance revenue was $219,120 versus $1,071,844, a decrease of 79.6%. The decrease in our professional fees revenue is due to the expiration, near completion, or change of phase of certain contracts, reductions in funding of certain contracts, and variations in the quantity of work completed under contracts where the work is done by customer request. We have expanded our sales force, however new contracts did not keep pace with the expirations of these contracts. The decrease in our software product and maintenance revenue was due to a combination of the expiration of U.S. federal government agency software maintenance contracts and a decrease in product sales. 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 margin was $403,386, or 36.1% of sales in the second quarter of 2013 versus $716,730, or 29.4% of sales, in the second quarter of 2012. For the quarter ended June 30, 2013, $376,310 of the gross margin was attributable to professional fees at a gross margin percentage of 41.9%, and $27,076 of the gross margin was attributable to software sales at a gross margin percentage of 12.4%. In the same quarter in 2012, we reported gross margins of $663,750, or 48.7% of sales for professional fees and $52,980, or 4.9% of sales for software sales. Gross margin and gross margin as a percentage of sales on professional fees decreased due to expirations and funding decreases in higher margin contracts, the change of phase of certain contracts, and a reduction in the ratio of fixed price per unit billing to hourly billing for our electronic forms professional fees. Gross margin on software sales decreased in terms of dollars due to contract expirations and a decrease in product sales, but increased as a percentage of sales due largely to the addition of one maintenance contract for which there are no third-party costs. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold.

Selling, General and Administrative Expenses
Selling, general and administrative expenses, exclusive of sales commissions, were $438,268, or 39.2% of revenues, in the second quarter of 2013 versus $464,333, or 19.1% of revenues, in the second quarter of 2012. These expenses decreased $26,065, or 5.6%, due largely to decreases in non-billable labor costs, recruiting fees, and training costs, partially offset by additional sales staff and increases in the costs of bids and proposals.

Commission expense was $103,569, or 9.3% of revenues, in the second quarter of 2013 versus $202,520, or 8.3% of revenues, in the second quarter of 2012. This decrease of $98,951, or 48.9%, is due to the decreases in revenue, gross margins, and operating income on commissionable contracts, which drive commission earned at varying rates for each salesperson.

Net (Loss) Income
Net loss for the three months ended June 30, 2013, was $136,519, or (12.2%) of revenue, versus net income of $51,444, or 2.1% of revenue, for the same period in 2012. The contrast is due to decreases in both professional fees and software sales, and the absence of the related gross margin.

Six Months Ended June 30, 2013 versus Six Months Ended June 30, 2012

Revenue

Our revenues in the six months ended June 30, 2013 were $2,435,259 compared to $3,948,581 in the first six months of 2012, a decrease of 38.3%. Professional services revenue was $2,079,896 versus $2,527,996, a decrease of 17.7%, and software product and maintenance revenue was $355,363 versus $1,420,585, a decrease of 75.0%. The decrease in our professional fees revenue is due to the expiration, near completion, or change of phase of certain contracts, reductions in funding of certain contracts, and variations in the quantity of work completed under contracts where the work is done by customer request. While we have expanded our sales force, new contracts did not keep pace with the expirations of these contracts. The decrease in our software product and maintenance revenue was due to a combination of the expiration of U.S. federal government agency software maintenance contracts and a decrease in product sales. Software product and maintenance sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold.

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Gross Profit

Gross margin was $916,450, or 37.6% of sales in the first six months of 2013 versus $1,249,418, or 31.6% of sales, in the first six months of 2012. For the six months ended June 30, 2013, $866,473 of the gross margin was attributable to professional services at a gross margin percentage of 41.7%, and $49,977 of the gross margin was attributable to software sales at a gross margin percentage of 14.1%. In the same quarter in 2012, we reported gross margins of $1,152,366, or 45.6% of sales for professional services and $97,052, or 6.8% of sales for software sales. Gross margin and gross margin as a percentage of sales on professional fees decreased due to expirations and funding decreases in higher margin contracts, the change of phase of certain contracts, and a reduction in the ratio of fixed price per unit billing to hourly billing for our electronic forms professional fees. Gross margin on software sales decreased in terms of dollars due to contract expirations and a decrease in product sales, but increased as a percentage of sales due largely to the addition of one maintenance contract for which there are no third-party costs. Software product sales and associated margins are subject to considerable fluctuation from period to period, based on the product mix sold.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of sales commissions, were $892,548, or 36.7% of revenues, in the first six months of 2013 versus $872,413, or 22.1% of revenues, in the first six months of 2012. These expenses increased $20,135, or 2.3%, due largely to additional sales staff, costs related to bids and proposals, and increases in recruiting fees.

Commission expense was $215,875, or 8.9% of revenues, in the second quarter of 2013 versus $351,169, or 8.9% of revenues, in the second quarter of 2012. This decrease of $135,294, or 38.5%, is due to the decreases in revenue, gross margins, and operating income on commissionable contracts, which drive commission earned at varying rates for each salesperson.

Net (Loss) Income

Net loss for the six months ended June 30, 2013, was $188,660, or 7.7% of revenue, versus net income of $28,894, or 0.7 % of revenue, for the same period in 2012. The contrast is due to decreases in both professional fees and software sales, and the absence of the related gross margin.

Liquidity and Capital Resources

Our cash and cash equivalents balance, when combined with our cash flow from operations during the first six months of 2013, were sufficient to provide financing for our operations. Our net cash used in the combination of our operating, investing, and financing activities in the first six months of 2013 was $180,940. This net cash used, when subtracted from a beginning balance of $2,623,016 yielded cash and cash equivalents of $2,442,076 as of June 30, 2013. Our accounts receivable balances increased $6,243, other current assets increased $113,024, and our current liabilities as a whole increased $130,733. We had no non-current liabilities as of June 30, 2013.

We have a revolving line of credit with a bank providing for demand or short-term borrowings of up to $1,000,000. The line became effective December 20, 2005, and expires on December 1, 2013. As of June 30, 2013, no amounts were outstanding under this line of credit. At June 30, 2013, $639,000 was available under this line of credit based on our outstanding accounts receivable.

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

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

We have no material commitments for capital expenditures.

We have no off-balance sheet arrangements.

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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, 2013 (the "Evaluation Date"). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting
There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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 13, 2013	By:	/S/ Sandor Rosenberg Sandor Rosenberg, Chairman of the Board, Chief Executive Officer, and President
Date: August 13, 2013	By:	/S/ Richard S. DeRose Richard S. DeRose, Executive Vice President, Treasurer, and Chief Financial Officer