

INFORMATION ANALYSIS INC  
Form DEF 14A  
April 30, 2012

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

SCHEDULE 14A  
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant

Filed by a Party other  
than the Registrant

Check the appropriate  
box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

INFORMATION ANALYSIS INCORPORATED

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Name of Registrant as Specified in its Charter

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11
  1. Title of each class of securities to which transaction applies:
  2. Aggregate number of securities to which transaction applies:
  - 3.

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5. Total fee paid:

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.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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(703) 383-3000  
(800) 829-7614  
Fax: (703)  
293-7979  
www.infoa.com

11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030

May 3, 2012

Dear Stockholder,

We, the Board of Directors of Information Analysis Incorporated, cordially invite you to attend our 2012 annual meeting of stockholders to be held at 10:00 AM on Tuesday, June 12, 2012, at our offices at 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030. The attached notice of annual meeting and proxy statement describe the business we will conduct at the meeting and provide information about Information Analysis Incorporated that you should consider when you vote your shares.

When you have finished reading the proxy statement, please promptly vote your shares by marking, signing, dating and returning the proxy card in the enclosed envelope. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting, whether or not you can attend.

Sincerely,

Sandor Rosenberg  
Chairman of the Board and  
Chief Executive Officer

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293-7979  
www.infoa.com

11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030

May 3, 2012

NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

TIME: 10:00 AM

DATE: June 12, 2012

PLACE: Information Analysis Incorporated  
11240 Waples Mill Road, Suite 201  
Fairfax, Virginia 22030

PURPOSES:

1. To elect four directors to serve terms expiring at the 2013 Annual Meeting.
2. To ratify the appointment of Reznick Group, P.C. an independent registered public accounting firm, as the company's independent registered public accountants for the fiscal year ending December 31, 2012.
3. To approve an amendment to the 2006 Stock Incentive Plan to increase the number of shares of common stock that may be issued pursuant to the plan by 1,000,000 shares.
4. To consider any other business that is properly presented at the meeting.

WHO MAY VOTE:

You may vote if you were the record owner of Information Analysis Incorporated stock at the close of business on April 23, 2012. A list of stockholders of record will be available at the meeting and, during the 10 days prior to the meeting, at the office of the Secretary at the above address.

BY ORDER OF THE BOARD OF  
DIRECTORS

Richard S. DeRose  
Secretary

YOUR VOTE IS VERY IMPORTANT

Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. You may vote over the Internet, as well as by telephone or, if you requested to receive printed proxy materials, by mailing a completed proxy card.



Information Analysis Incorporated

2012 Proxy Statement

INFORMATION ANALYSIS INCORPORATED  
11240 WAPLES MILL ROAD, SUITE 201  
FAIRFAX, VIRGINIA 22030

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PROXY STATEMENT  
For the 2012 ANNUAL MEETING OF STOCKHOLDERS  
To be held on June 12, 2012

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#### INFORMATION ABOUT THE MEETING, VOTING AND PROXIES

##### Date, Time and Place of Meeting

This proxy statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors ("Board") of Information Analysis Incorporated ("we," "IAI" or the "Company") for use at the 2012 Annual Meeting of Stockholders ("Annual Meeting") to be held on June 12, 2012 beginning at 10:00 am EDT at our principal executive offices located at 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030, and at any adjournment or postponement of that meeting. On or about May 3, 2012, we are either mailing or providing notice and electronic delivery of these proxy materials together with an annual report, consisting of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the "2011 fiscal year"), and other information required by the rules of the Securities and Exchange Commission.

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##### Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 12, 2012

This proxy statement and our 2011 Annual Report are available for viewing, printing and downloading at [www.infoa.com/Investors.php](http://www.infoa.com/Investors.php).

You may request a copy of the materials relating to our annual meetings, including the proxy statement and form of proxy for our 2012 Annual Meeting and the 2011 Annual Report, at [www.infoa.com/Investors.php](http://www.infoa.com/Investors.php), by sending an email to our Investor Relations department at [investor@infoa.com](mailto:investor@infoa.com), or by calling (800) 829-7614 ext. 7901.

##### Internet Availability of Proxy Materials

Under the U.S. Securities and Exchange Commission's "notice and access" rules, we have elected to use the Internet as our primary means of furnishing proxy materials to our stockholders. Consequently, most stockholders will not receive paper copies of our proxy materials. We instead sent these stockholders a Notice of Internet Availability of Proxy Materials ("Internet Availability Notice") containing instructions on how to access this Proxy Statement and our Annual Report and vote via the Internet. The Internet Availability Notice also included instructions on how to receive a paper copy of your proxy materials, if you so choose. If you received your annual meeting materials by mail, your

proxy materials, including your proxy card, were enclosed. We believe that this process expedites stockholders' receipt of proxy materials, lowers the costs of our Annual Meeting and helps to conserve natural resources.

#### Voting Instructions

If your shares are registered directly in your name with our transfer agent, American Stock Transfer, the Internet Availability Notice was sent directly to you by the Company. The Internet Availability Notice provides instructions on how to request printed proxy materials and how to access your proxy card which contains instructions on how to vote via the Internet or by telephone. For stockholders who receive a paper proxy card, instructions for voting via the Internet or by telephone are set forth on the proxy card. The Internet and telephone voting facilities for stockholders of record will close at 12:00 a.m. EDT on June 12, 2012. If your shares are held in an account at a brokerage firm, bank, trust or other similar organization, like the vast majority of our stockholders, you are considered the "beneficial owner" of shares held in "street name" and the Internet Availability Notice was forwarded to you by that organization. You will receive instructions from your broker, bank, trustee or other nominee that must be followed in order for your broker, bank, trustee or other nominee to vote your shares per your instructions. See the section below entitled "Abstentions and Broker Non-Votes" for additional information regarding the impact of abstentions and broker-non votes on the votes required for each proposal.

Information Analysis Incorporated

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### Revocability of Proxies

A holder of our common stock who has given a proxy may revoke it prior to its exercise either by giving written notice of revocation to the Secretary of the Company or by giving a duly executed proxy bearing a later date. Attendance in person at the Annual Meeting does not itself revoke a proxy; however, any stockholder who attends the Annual Meeting may revoke a previously submitted proxy by voting in person. If you are a beneficial owner of our shares, you will need to contact your bank, brokerage firm, trustee or other nominee to revoke any prior voting instructions.

### Proxy Voting

Subject to any revocation as described above, all common stock represented by properly executed proxies will be voted in accordance with the specifications on the proxy. If no such specifications are made, proxies will be voted as follows:

“FOR” the election of the four nominees for director;

“FOR” ratification of the appointment of Reznick Group, PC as our independent registered public accountants for our fiscal year ending December 31, 2012.

“FOR” the amendment to the 2006 Stock Incentive Plan to increase the number of shares of common stock that may be issued pursuant to the plan by 1,000,000 shares.

As to any other matter that may be brought before the Annual Meeting, proxies will be voted in accordance with the judgment of the person or persons voting the same.

### Record Date, Outstanding Shares and Quorum

Only holders of our common stock of record at the close of business on April 23, 2012 (the “Record Date”) are entitled to notice of and to vote at the Annual Meeting. At the close of business on the Record Date, there were 11,196,760 shares of our common stock issued and outstanding, excluding 1,642,616 shares of common stock held as treasury stock by the Company. Shares of common stock held as treasury stock are not entitled to be voted at the Annual Meeting. Each stockholder is entitled to one vote per share of common stock held on all matters to be voted on by our stockholders. The presence in person or by proxy at the Annual Meeting of the holders of a majority of the issued and outstanding shares entitled to vote at the Annual Meeting shall constitute a quorum.

### Proxy Solicitation

The Company will bear the expense of this solicitation of proxies, including the preparation, assembly, printing and mailing of the Internet Availability Notice, this Proxy Statement, the proxy and any additional solicitation material that the Company may provide to stockholders. Copies of the proxy materials and any other solicitation materials will be provided to brokerage firms, banks, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation material to such beneficial owners. We will reimburse such brokerage firms, banks, fiduciaries and other custodians for the reasonable out-of-pocket expenses incurred by them in connection with forwarding the proxy materials and any other solicitation materials. We have retained Issuer Direct Corporation to assist us with the distribution of proxies. The original solicitation of proxies by mail may be supplemented by solicitation by telephone and other means by directors, officers and employees of the Company. No additional compensation will be paid to these individuals for any such services.



Abstentions and Broker Non-Votes

Abstentions will be counted for purposes of determining the presence or absence of a quorum. The effect of an abstention on the outcome of the voting on a particular proposal depends on the vote required to approve that proposal, as described in the "Vote Required" section below.

Information Analysis Incorporated

2012 Proxy Statement

“Broker non-votes” are shares present by proxy at the Annual Meeting and held by brokers or nominees as to which (i) instructions to vote have not been received from the beneficial owners and (ii) the broker or nominee does not have discretionary voting power on a particular matter. If you are a beneficial owner of shares held in “street name” and you do not provide voting instructions to your broker, your shares may be voted on any matter your broker has discretionary authority to vote. Under the rules that govern brokers who are voting with respect to shares held in “street name,” brokers generally have discretionary authority to vote on “routine” matters, but not on “non-routine” matters. The ratification of the appointment of an independent registered public accounting firm (the “independent auditor”) (Proposal 2) is considered a routine matter. Non-routine matters include the election of directors (Proposal 1) and the vote on the proposed amendment to the 2006 Stock Incentive Plan (Proposal 3). We encourage you to provide instructions to your broker or other nominee regarding voting your shares. On any matter for which your broker or other nominee does not vote on your behalf, the shares will be treated as “broker non-votes”.

Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting, but broker non-votes will not be counted for purposes of determining the number of shares present in person or by proxy at the Annual Meeting with respect to a particular proposal on which the broker has expressly not voted.

#### Board Voting Recommendations

Our Board recommends that you vote your shares FOR the election of each of the four director nominees listed in Proposal 1 below, FOR the ratification of Reznick Group, P.C. as our independent registered public accountants for the fiscal year ending December 31, 2012 (Proposal 2), and FOR the proposal to amend the 2006 Stock Incentive Plan (Proposal 3).

#### Vote Required

Election of a director requires the affirmative vote of the holders of a plurality of the shares present in person or represented by proxy at a meeting at which a quorum is present. The four persons receiving the greatest number of votes at the Annual Meeting shall be elected as directors. Since only affirmative votes count for this purpose, abstentions and broker non-votes will not affect the outcome of the voting on this proposal.

With respect to Proposal 2, the ratification of the appointment of our independent registered public accounting firm (the “independent auditor”) for the fiscal year ending December 31, 2012, and Proposal 3, amending the 2006 Stock Incentive Plan, a stockholder may mark the accompanying form of proxy card to (i) vote for the matter, (ii) vote against the matter, or (iii) abstain from voting on the matter. Because only a majority of shares actually voting is required to approve Proposal 2 and Proposal 3, abstentions and broker non-votes will have no effect on the outcome of the voting on any of these proposals.

The inspector of election appointed for the Annual Meeting will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

#### Voting Results

We will announce the preliminary voting results at the conclusion of the Annual Meeting. The final voting results will be tallied by the inspector of election and published in a Current Report on Form 8-K to be filed with the Securities and Exchange Commission (the “SEC”) within four business days following the Annual Meeting.

Our Board encourages stockholders to attend the Annual Meeting. Whether or not you plan to attend, you are urged to submit your proxy. Prompt response will greatly facilitate arrangements for the meeting and your cooperation will be appreciated. Stockholders who attend the Annual Meeting may vote their stock personally even though they have sent in their proxies.

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Information Analysis Incorporated

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## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our common stock held as of April 23, 2012 by each person who is known by us based on schedule 13G filings to beneficially own more than 5% of the outstanding shares of our common stock, and as of April 23, 2012 by (1) each current director and nominee for director; (2) each of the named executive officers listed in the Summary Compensation Table included elsewhere in this proxy statement; and (3) by all current directors and executive officers as a group:

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

## TITLE OF CLASS: INFORMATION ANALYSIS INCORPORATED COMMON STOCK

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent Of Class
Traditions LP 924 Ridge Drive McLean, VA 22101	1,000,000	8.9
Joseph P. Daly 497 Circle Freeway Cincinnati, OH 45246	868,620	7.8
Barry T. Brooks 3843 Jamestown Road Springfield, OH 45502	735,043	6.6

## SECURITY OWNERSHIP OF MANAGEMENT

## TITLE OF CLASS: INFORMATION ANALYSIS INCORPORATED COMMON STOCK

Name of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent Of Class
Sandor Rosenberg, Chairman, CEO, and Director	1,832,800	16.4
Richard S. DeRose, Executive Vice President	500,345 (3)	4.4
Stanley A. Reese, Senior Vice President	292,000 (4)	2.5
Charles A. May, Jr., Director	60,000 (5)	0.5
Bonnie K. Wachtel, Director	183,800 (5)	1.6
James D. Wester, Director	164,947 (5)	1.5
All directors and executive officers as a group	3,033,892 (6)	25.7

(1) The address of all beneficial holders is in care of the Company, except Ms. Wachtel, whose address of record is 1101 14th St. NW, Washington, DC 20001.

- (2) All shares are held outright by the individuals listed.
- (3) Includes 285,000 shares issuable upon the exercise of options to purchase common stock.
- (4) Includes 270,000 shares issuable upon the exercise of options to purchase common stock.
- (5) Includes 20,000 shares issuable upon the exercise of options to purchase common stock.
- (6) Includes 615,000 shares issuable upon the exercise of options to purchase common stock.

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## MANAGEMENT

## The Board of Directors

Our Bylaws provide that our business is to be managed by or under the direction of our Board of Directors. All Directors are elected at each annual meeting of stockholders to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Our Board of Directors currently consists of four (4) members.

Our Board of Directors voted to nominate Charles A. May, Jr., Sandor Rosenberg, Bonnie K. Wachtel and James D. Wester for election at the annual meeting to serve until the 2013 annual meeting of stockholders, and until their respective successors have been elected and qualified.

Set forth below are the names of the persons nominated as directors, their ages, their offices in the Company, if any, their principal occupations or employment for the past ten years, the length of their tenure as directors and the names of other public companies in which such persons hold directorships.

Name of Nominee	Age	Director Since	Position with the Company
Charles A. May, Jr.	74	1997	Director
Sandor Rosenberg	65	1979	Chairman of the Board, Chief Executive Officer and President
Bonnie K. Wachtel	56	1992	Director
James D. Wester	73	1985	Director

Charles A. May, Jr., 74, is a consultant focusing on national security and strategic business planning issues. In 1992, he retired as a Lt. General from the Air Force where he last served as Assistant Vice Chief of Staff, Headquarters US Air Force, Washington, D.C. He is a graduate of the U.S. Air Force Academy, where he once served as an Associate Professor of Political Science. General May has also graduated from the NATO Defense College, has a Master's degree in International Relations from Columbia University, and has completed the course work toward a Ph.D., and has completed the University of Pittsburgh's Management Program for Executives.

General May brings a world of experience relating to strategic planning, the government as a customer, assessment of trends in national security, accountability, and stability to our Board.

Sandor Rosenberg, 65, is the founder of the Company and has been Chairman of the Board and Chief Executive Officer of the Company since 1979, and President since 1998. Mr. Rosenberg holds a B.S. degree in Aerospace Engineering from Rensselaer Polytechnic Institute, and has done graduate studies in Operations Research at George Washington University.

Mr. Rosenberg is IAI's largest shareholder. This entrepreneur has been guiding IAI through three decades. Mr. Rosenberg has been involved in developing our core competencies.

Bonnie K. Wachtel, 56, is a principal of Wachtel & Co., Inc., a boutique investment firm based in Washington, D.C.. Ms. Wachtel has been a director of several local companies since joining her firm in 1984, and currently serves on the board of VSE Corporation, a provider of services to federal government clients. Ms Wachtel holds B.A. and M.B.A. degrees from the University of Chicago and a J.D. from the University of Virginia. She is a Certified Financial Analyst.

Ms. Wachtel is a trusted resource in regard to business strategy, public markets, merger and acquisition opportunities, corporate governance, regulatory compliance, and risk management. Given her background and occupation, she is clearly qualified to be the audit committee's financial expert.

Information Analysis Incorporated

2012 Proxy Statement

James D. Wester, 73, was president of Results, Inc., a computer services marketing consulting firm, for more than 15 years. Mr. Wester holds a B.M.E. degree from Auburn University and an M.B.A. from George Washington University.

Mr. Wester has a wealth of experience and knowledge as an entrepreneur and as a successful businessman.

#### Independence

Our Board has determined that the following members of the Board qualify as independent under the definition promulgated by the NASDAQ Stock Market:

Charles A. May, Jr.  
Bonnie K. Wachtel  
James D. Wester

There are no family relationships between any directors or executive officers of the Company.

#### Board Leadership Structure

IAI does not have a policy on whether the offices of Chairman of the Board and Chief Executive Officer (“CEO”) should be separate. Currently, Sandor Rosenberg serves as Chairman and CEO, which the Board believes best serves the interest of the Company and its shareholders at this time. Although the Board does not have a “lead” independent director, two of the Board’s committees – Audit and Compensation – are led by independent directors.

#### Board Role in Risk Oversight

Our Board receives regular communication from our management regarding areas of significant risk to us, including operational, strategic, legal and regulatory, and financial risks. Certain risks that are under the purview of a particular Committee are monitored by that Committee, which then reports to the full Board as appropriate.

#### Committees of the Board of Directors and Meetings

**Meeting Attendance.** During the fiscal year ended December 31, 2011 there was one meeting of our Board of Directors. All directors attended the meeting of the Board and of committees of the Board on which he or she served during fiscal 2011. The Board has adopted a policy under which each member of the Board is strongly encouraged to attend each annual meeting of our stockholders. One member of the Board attended the 2011 annual meeting of our stockholders.

**Audit Committee.** Our Audit Committee met one time during 2011. This committee currently has two members, Bonnie K. Wachtel (Chairman) and Charles A. May, Jr. Our Audit Committee has the authority to retain and terminate the services of our independent registered public accountants, reviews annual financial statements, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits. All members of the Audit Committee satisfy the current independence standards promulgated by the SEC and by the NASDAQ Stock Market; as such standards apply specifically to members of audit committees. The Board has determined that Ms. Wachtel is our “audit committee financial expert,” as the SEC has defined that term in Item 407 of Regulation S-K. Please also see the report of the Audit Committee set forth elsewhere in this proxy statement. The current audit



committee charter is available for viewing on our Web site at [www.infoa.com](http://www.infoa.com) under the Investor Relations section of the Company Profile.

Compensation Committee. Our Compensation Committee met one time during 2011. This committee currently has two members, Ms. Wachtel (Chairman) and Mr. May. This committee does not operate under a charter. Our Compensation Committee reviews, approves and makes recommendations regarding our compensation policies, practices and procedures to ensure that legal and fiduciary responsibilities of the Board of Directors are carried out and that such policies, practices and procedures contribute to our success. The Compensation Committee is responsible for the determination of the compensation of our Executive Officers, and shall conduct its decision-making process with respect to that issue without the executive officers present. All members of the Compensation Committee qualify as independent under the definition promulgated by the NASDAQ Stock Market.

## Information Analysis Incorporated

## 2012 Proxy Statement

Nominating Committee. Our Nominating Committee met one time during 2011 and has four members, Mr. Rosenberg (Chairman), Ms. Wachtel, and Messrs. May and Wester. This committee does not operate under a charter. This committee's role is to make recommendations to the full Board as to the size and composition of the Board and its committees, and to evaluate and make recommendations as to potential candidates. All members of the Nominating Committee qualify as independent under the definition promulgated by the NASDAQ Stock Market except for Mr. Rosenberg. The Nominating Committee may consider candidates recommended by stockholders as well as from other sources such as other directors or officers, third party search firms or other appropriate sources. For all potential candidates, the Nominating Committee may consider all factors it deems relevant, such as a candidate's personal integrity and sound judgment, business and professional skills and experience, independence, knowledge of the industry in which we operate, possible conflicts of interest, diversity, the extent to which the candidate would fill a present need on the Board, and concern for the long-term interests of the stockholders. In general, persons recommended by stockholders will be considered on the same basis as candidates from other sources. If a stockholder wishes to nominate a candidate to be considered for election as a director at the 2012 Annual Meeting of Stockholders, it must follow the procedures described in "Stockholder Proposals and Nominations for Director."

## Shareholder Communications to the Board

Generally, shareholders who have questions or concerns should contact our Investor Relations department at (703) 383-3000. However, any shareholders who wish to address questions regarding our business directly with the Board of Directors, or any individual director, should direct his or her questions in writing to:

Board of Directors of Information Analysis Incorporated  
 ATTN: (Chairman of the Board/Board member name)  
 11240 Waples Mill Road, Suite 201  
 Fairfax, Virginia 22030

Shareholder communications addressed to the Board, but not addressed to a specific Board member, will be relayed to the Chairman of the Board, and from there will be distributed to the Chairperson of the committee that oversees the subject matter of the communication.

## Compensation of Directors

The Company pays each non-employee director an annual fee of \$2,000 to serve on the Board, payable quarterly. Expenses incurred in attending Board of Director meetings and committee meetings may be reimbursed. The following Table describes all compensation for each director for the year ended December 31, 2011.

## Director Compensation

Name	Fees Earned or Paid in				All Other Compensation	Total
	Cash	Stock Awards (\$)	Option Awards (\$)			
(a)	(b)	(c)	(d)	(g)	(h)	
Charles A. May, Jr.	2,000	-	-	-	2,000	
Bonnie K. Wachtel	2,000	-	-	-	2,000	
James D. Wester	2,000	-	-	-	2,000	



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## Executive Officers

The following table sets forth certain information regarding our executive officers who are not also directors.

Name	Age	Position
Richard S. DeRose	73	Executive Vice President, Secretary, and Chief Financial Officer
Stanley A. Reese	55	Senior Vice President and Chief Operating Officer

Richard S. DeRose, 73, has been Executive Vice President since 1991. Prior to that, he served as the President and CEO of DHD Services, Inc., a company he founded, from 1979 until DHD's acquisition by the Company in 1991. Prior to DHD, Mr. DeRose held several management positions in the information technology and telecommunications industries at RCA, Burroughs, and MCI. Mr. DeRose holds a B.S. degree in Science from the US Naval Academy and an M.S. degree in Computer Systems Management from the US Naval Postgraduate School, Monterey.

Stanley A. Reese, 55, joined the Company in 1993. Mr. Reese has been Senior Vice President since 1997 and Chief Operating Officer since March 1999. From 1992 to 1993, he served as Vice President, Technical Services at Tomco Systems, Inc. Prior to Tomco Systems, he served as Senior Program manager at ICF Information Technology, Inc. Mr. Reese has over 20 years experience managing and marketing large scale mainframe and PC-based applications. Mr. Reese holds a B.A. in History from George Mason University.

## EXECUTIVE COMPENSATION

The Summary Compensation Table below sets forth individual compensation information for the Chief Executive Officer and the other executive officers serving as executive officers as of December 31, 2011 (collectively "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

Name and principal position (a)	Year (b)	Salary (\$)(c)	Bonus (\$)(d)	Stock Awards (\$)(e)	Option Awards1 (\$)(f)	All Other Compensation2 (\$)(i)	Total (\$)(j)
Sandor Rosenberg Chairman of the Board and Chief Executive Officer	2011	142,000	5,000	--	--	12,307	159,307
	2010	140,500	15,000	--	--	7,320	162,820
Richard S. DeRose Executive Vice President	2011	70,000	1,000	--	--	18,622	89,622
	2010	70,000	5,000	--	8,000	2,434	85,434

Stanley A. Reese	2011	140,000	4,000	--	--	26,045	170,045
Chief Operating Officer	2010	140,000	10,000	--	3,000	17,608	170,608

1Option Awards reported at aggregate grant date fair value. Fair value approximates maximum value. The assumptions used in calculating the value of Option Awards are detailed in the financial statement footnotes in our 2011 Annual Report on Form 10-K as filed with the SEC on March 31, 2012.

2References to All Other Compensation include employer matching contributions to each individual's 401(k) defined contribution account under our company-wide 401(k) Pension and Profit Sharing Plan, routine payouts of excess vacation accruals, and employer payments for long-term care insurance under an executive carve-out.

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Each named executive officer is a salaried employee, without any guaranteed incentives. Bonuses and option awards are at the discretion of the Compensation Committee of the Board of Directors. Executive officers are eligible to participate in the Information Analysis Incorporated 401(k) Pension and Profit Sharing Plan under the same terms and matching percentages as other salaried employees. Vacation accruals in excess of defined limits are automatically paid out to all salaried employees annually, and may be paid other times upon request. Executive officers receive a perquisite benefit of no-cash-value long-term care insurance paid by the Company.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

## OPTION AWARDS

Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price (\$) (e)	Option Expiration Date (f)
Sandor Rosenberg	n/a	n/a		
Richard S. DeRose	50,000		0.22	05/27/2013
Richard S. DeRose	25,000		0.42	10/27/2015
Richard S. DeRose	90,000		0.52	06/23/2016
Richard S. DeRose	50,000		0.40	04/20/2017
Richard S. DeRose	20,000		0.17	01/28/2020
Richard S. DeRose	50,000		0.20	11/01/2020
Stanley A. Reese	50,000		0.22	05/27/2013
Stanley A. Reese	25,000		0.42	10/27/2015
Stanley A. Reese	100,000		0.40	04/20/2017
Stanley A. Reese	25,000		0.28	05/05/2018
Stanley A. Reese	20,000		0.17	01/28/2020

## Equity Compensation Plan Information

The following table contains information regarding securities authorized and available for issuance under our equity compensation plans for certain employees, directors, and consultants, as of April 23, 2012.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance
	1,062,500	\$ 0.29	276,500

Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders	--	--	--
<b>Total</b>	<b>1,062,500</b>	<b>\$ 0.29</b>	<b>276,500</b>

Information Analysis Incorporated

2012 Proxy Statement

#### Employment Contracts, Termination of Employment and Change-in-Control Arrangements

On June 18, 1997, the Company agreed in writing to provide to Richard S. DeRose, Executive Vice President, Chief Financial Officer, and Secretary, twelve months severance pay of his full-time base salary, payable in normal payroll increments, in the event of the termination of his employment other than for cause. In the event of a change of control or the sale or transfer of substantially all of the Company's assets, the Company agreed that in the event of Mr. DeRose's termination, substantial reduction of duties, or requirement to be based at a location outside of a 30-mile radius of Fairfax, Virginia, he will receive a twelve month severance payment of base salary, payable in lump sum or monthly, at the Company's discretion. Had the event of termination or change-in-control occurred on December 31, 2011, Mr. DeRose's compensation under the agreement would have been \$130,000.

#### 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 a discretionary percentage of the participants' elective deferrals. In 2011, the Company matched 25% of the first 6% of the participants' elective deferrals. The Company may also make additional contributions to all eligible employees at its discretion. The Company did not make additional contributions during 2011.

#### Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with our independent registered public accountants on accounting and financial disclosure.

#### TRANSACTIONS WITH RELATED PERSONS

In the year ended December 31, 2011, there were no related party transactions subject to reporting herein.



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## REPORT OF AUDIT COMMITTEE

The Audit Committee of the Board of Directors, which consists entirely of directors who meet the independence and experience requirements of the NASDAQ stock market, has furnished the following report:

The Audit Committee assists the Board in overseeing and monitoring the integrity of our financial reporting process, compliance with legal and regulatory requirements and the quality of internal and external audit processes. This committee's role and responsibilities are set forth in our charter adopted by the Board. This committee reviews and reassesses our charter annually and recommends any changes to the Board for approval. The Audit Committee is responsible for overseeing our overall financial reporting process, and for the appointment, compensation, retention, and oversight of the work of Reznick Group, P.C. In fulfilling its responsibilities for the financial statements for fiscal year December 31, 2011, the Audit Committee took the following actions:

Reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2011, with management and Reznick Group, P.C., our independent auditors;

Discussed with Reznick Group, P.C. the matters required to be discussed by the statement on Auditing Standards No. 61, as amended, relating to the conduct of the audit; and

Received written disclosures and the letter from Reznick Group, P.C., regarding its independence as required by Independence Standards Board Standard No. 1. The Audit Committee further discussed with Reznick Group, P.C., their independence. The Audit Committee also considered the status of pending litigation, taxation matters and other areas of oversight relating to the financial reporting and audit process that the committee determined appropriate.

Based on the Audit Committee's review of the audited financial statements and discussions with management and Reznick Group, P.C., the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2011, for filing with the SEC.

Members of the Information Analysis Incorporated Audit Committee

Bonnie K. Wachtel

Charles A. May, Jr.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) ("Section 16(a)") of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires executive officers and Directors and persons who beneficially own more than ten percent (10%) of the Company's common stock to file initial reports of ownership and reports of changes in ownership with the SEC and any national securities exchange on which the Company's securities are registered. Executive officers, Directors and greater than ten percent (10%) beneficial owners are required by the SEC's regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Company, there were no officers, Directors and 10% beneficial owners who failed to file on a timely basis the forms required under Section 16(a) of the Exchange Act.



Information Analysis Incorporated

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PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors nominated Charles A. May, Jr., Sandor Rosenberg, Bonnie K. Wachtel and James D. Wester for election at the Annual Meeting. If they are elected, they will serve on our Board of Directors until the 2013 Annual Meeting of Stockholders and until their respective successors have been elected and qualified.

Unless authority to vote for any of these nominees is withheld, the shares represented by the enclosed proxy will be voted FOR the election as directors of Charles A. May, Jr., Sandor Rosenberg, Bonnie K. Wachtel and James D. Wester. In the event that any nominee becomes unable or unwilling to serve, the shares represented by the enclosed proxy will be voted for the election of such other person as the Board of Directors may recommend in his/her place. We have no reason to believe that any nominee will be unable or unwilling to serve as a director.

All nominees are currently Directors of the Company and have served continuously since the dates of their elections as shown on page 5.

A plurality of the shares voted affirmatively or negatively at the Meeting is required to elect each nominee as a director.

The Board Of Directors Recommends The Election Of Charles A. May, Jr., Sandor Rosenberg, Bonnie K. Wachtel and James D. Wester As Directors, And Proxies Solicited By The Board Will Be Voted In Favor Thereof Unless A Stockholder Has Indicated Otherwise On The Proxy.

Information Analysis Incorporated

2012 Proxy Statement

## PROPOSAL 2

## RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee has appointed Reznick Group, P.C., independent registered public accountants, to audit our financial statements for the fiscal year ending December 31, 2012. The Board proposes that the stockholders ratify this appointment. Reznick Group, P.C., audited our financial statements for each of the fiscal years ended December 31, 2006 through 2011. We expect that representatives of Reznick Group, P.C., will not be present at the meeting, will therefore be unable to make a statement, and will not be available to respond to appropriate questions.

The following table presents fees for professional audit services rendered by Reznick Group, P.C., for the audit of the Company's annual financial statements for the years ended December 31, 2011 and 2010, respectively, and fees billed for other services rendered by our principal accountants during those periods.

Fee Category	2011 Fees	2010 Fees
Audit Fees	\$ 65,000	\$ 60,000
Audit-Related Fees		
- Out of Pocket Expenses		
Tax Fees	5,585	5,350
All Other Fees	--	--
- Out-of-pocket and processing		
Total Fees and Services	\$ 70,585	\$ 65,350

The Audit Committee directly engages the Independent Registered Public Accountants as it relates to the audit of the Company's fiscal year and the reviews of its fiscal quarters and the associated fees. In accordance with its written charter, our Audit Committee pre-approves all audit and permissible non-audit services, including the scope of contemplated services and the related fees, that are to be performed by Reznick Group, P.C., our independent registered public accounting firm, subject to the de minimis exceptions described in Section 10A(i)(1)(B) of the Exchange Act, which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee's pre-approval of non-audit services involves consideration of the impact of providing such services on Reznick Group's independence. All 2011 and 2010 non-audit services were pre-approved by the Audit Committee.

Although stockholder approval of the Board of Directors' selection of Reznick Group is not required by law, the Board of Directors believes that it is advisable to give stockholders an opportunity to ratify this selection.

In the event the stockholders do not ratify the appointment of Reznick Group, P.C., as our independent registered public accountants, the Audit Committee will reconsider its appointment.

The affirmative vote of a majority of the shares present or represented and entitled to vote at the Meeting is required to ratify the appointment of the independent registered public accountants.

The Board of Directors recommends a vote "FOR" the ratification of Reznick Group, P.C. as the independent registered public accountants, and proxies solicited by the Board will be voted in favor of such ratification unless a stockholder indicates otherwise on the proxy.



Information Analysis Incorporated

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### PROPOSAL 3

#### AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN

The Board of Directors approved the adoption of our 2006 Stock Incentive Plan (the "2006 Plan") on April 12, 2006, and our stockholders approved such adoption on May 18, 2006. The 2006 Plan was adopted to provide for equity-based, long-term incentives to attract, motivate and retain key employees, officers, directors, and other third parties who provide services of substantial benefit or value to the Company. The maximum number of shares of common stock that may be issued pursuant to the 2006 Plan is 950,000 shares.

As of April 23, 2012, an aggregate of 276,500 shares of our common stock remained available for future grants under the 2006 Plan. The Board believes it is important to the continued success of the Company that we have an adequate reserve of shares available under the 2006 Plan for use in attracting, motivating, and retaining qualified key employees, directors, officers, and other third parties from whom the Company can derive substantial benefit or value.

The Company has been pursuing the Merger and Acquisition marketplace. Additionally, we plan to grow our business through an aggressive in-house business development program. In the process of doing this, it has become apparent that senior strategic hires are needed in order to grow our business base. The marketplace for top quality personnel working in the government sector is very competitive, and by increasing the available shares, IAI will have an advantage in hiring the best candidates. We believe that in order to attract additional personnel for in-house growth and acquisitions, additional incentives will be required to attract and retain key personnel.

On April 17, 2012, subject to stockholder approval, the Board increased the number of shares of common stock that we are authorized to issue pursuant to the 2006 Plan by 1,000,000. The text of the 2006 Plan, including the proposed amended language, which is bold and underlined, is attached as Appendix A to this proxy statement. The Company has previously filed with the SEC a registration statement on Form S-8 (the "Form S-8") to register the shares issuable pursuant to options granted under the 2006 Plan. If the Amendment to the 2006 Plan is approved by the stockholders, the Company intends to amend the previously-filed Form S-8 to include the 1,000,000 additional shares as soon as is practicable after receiving stockholder approval.

The Board of Directors recommends a vote to "FOR" the Amendment to the 2006 Plan, and proxies solicited by the Board will be voted in favor of such amendment unless a stockholder indicates otherwise on the proxy.

#### Summary of the 2006 Stock Incentive Plan Terms

The following summary of the 2006 Plan is qualified in its entirety by the specific language of the 2006 Plan, a copy of which will be made available to you upon written request.

**General** The 2006 Plan will continue until April 12, 2016, until terminated by the Board, or until all of the shares reserved under the 2006 Plan have been issued, whichever occurs first. Options granted under the 2006 Plan must be evidenced by an option agreement, specifying the number of shares subject to the option and the other terms and conditions of the option, consistent with the requirements of the 2006 Plan. Such options terminate and cease to be exercisable on the date ten years after the date of grant unless earlier terminated pursuant to the terms of the 2006 Plan or the option agreement.

**Shares Subject to the Plan** If the stockholders approve this proposal to authorize an additional 1,000,000 shares for issuance under the 2006 Plan, the cumulative aggregate share authorization under our 2006 Plan will increase to

1,950,000 shares. However, this share reserve is reduced at any time by the number of shares remaining subject to options outstanding, as well as by the number of shares actually issued. Including the proposed 1,000,000 share increase, as of April 23, 2012, a total of 1,276,500 shares would be available for issuance under the 2006 Plan.

If shares of Common Stock awarded or issued under the Plan are reacquired by the Company due to forfeiture or for any other reason, such shares shall be cancelled and thereafter shall again be available for purposes of the Plan. If a Stock Option expires, terminates or is cancelled for any reason without having been exercised in full, the shares of Common Stock not purchased thereunder shall again be available for purposes of the Plan. Appropriate adjustments are made to any outstanding options in the event of a stock dividend, stock split, or other change in the capital structure of the Company.

Information Analysis Incorporated

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**Eligibility** Only employees and officers of IAI (“Employees”), and non-employee directors, independent advisors, and consultants of IAI (“Selected Persons”) whom the Board and our management believe are in positions to make significant and extraordinary contributions to the long-term performance and growth of the Company, are eligible to receive options to purchase shares of our common stock under the 2006 Plan. Statutory Stock Options (Incentive Stock Options, “ISO’s”) may only be granted to Employees under the 2006 Plan. Non-statutory Stock Options (Non-Qualified Options) may be granted to any Employee or Selected Person of the Company. As of April 23, 2012, we had 28 Employees, 3 non-employee directors, no independent advisors, and 9 consultants.

**Exercise Price** The exercise price of each option shall not be less than one hundred percent of the fair market value of a share of our common stock on the date of grant. On April 23, 2012, the closing price of our common stock reported in the over-the-counter market was \$0.15 per share.

**Payment** The 2006 Plan provides that the option exercise price may be paid in cash, by cashier’s or certified check, by surrender of shares of common stock owned by the optionee having a fair market value not less than the exercise price (if the Board in its discretion authorizes payment in stock), by delivery to the Company of the optionee’s promissory note secured by the option shares (if the Board in its discretion authorizes payment by promissory note), or by any combination of these.

**Vesting** Each share is exercisable and shall vest in such periodic installments as the Board in its sole discretion may determine. Unless otherwise provided for by the Board in the grant of the stock option, any stock option granted hereunder shall be exercisable in full immediately upon grant. Options granted to Employees and Selected Persons who are subject to reporting requirements of Section 16(a) of the Exchange Act shall not be exercisable until at least six months and one day from the date the stock option is granted.

**Change-in-Control** In the event of a reorganization or change in control of the Company such as a merger, consolidation, share exchange or other business combination, the Board has the authority to accelerate the exercisability or termination of any unexercised options, subject to any terms and conditions provided by the reorganization.

**Administration** The 2006 Plan is administered by the Board or a committee duly appointed by the Board. The Board has the power to construe and interpret the 2006 Plan but not to determine the persons to whom or the dates on which options will be granted, the exercise price, the time at which an option can be granted, the duration of an option, or to alter any other terms or conditions specified in the 2006 Plan, except in the sense of administering the 2006 Plan subject to the provisions of the Plan.

**Amendments** The Board of Directors may amend, alter or terminate the Plan at any time. The Company must obtain shareholder approval for any change that would (i) require such approval under any regulatory or tax requirement, (ii) materially impair any option previously granted, (iii) materially increase the number of shares subject to the plan, (iv) materially increase the benefits accruing to participants under the plan, or (v) materially modify the requirements as to eligibility to participate in the Plan or the method for determining the option exercise price.

#### Summary of Federal Income Tax Consequences of the 2006 Stock Incentive Plan

The Federal income tax consequences of a participant’s participation in the Plan are complex and subject to change. The following is only a summary of the general rules applicable to the Plan. The summary is based on current provisions of the Internal Revenue Code and does not cover any state or local tax consequences of



participation in the Plan. Participants in the Plan are advised to consult their own tax advisors as a taxpayer's particular situation may be such that some variation of the rules described below will apply.

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In general, a participant will not recognize income at the time a non-statutory stock option is granted. At the time of exercise, the Participant will recognize ordinary income in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares on the date of exercise. At the time of sale of shares acquired pursuant to the exercise of a non-statutory option, any appreciation (or depreciation) in the value of the shares after the date of exercise generally will be treated as capital gain (or loss).

A participant generally will not recognize income upon the grant or exercise of an incentive stock option. If shares issued to a Participant upon the exercise of an ISO are not disposed of in a disqualifying disposition within two years after the date of grant or within one year after the transfer of the shares to the Participant, then upon the sale of the shares any amount realized in excess of the option price generally will be taxed to the Participant as long-term capital gain and any loss sustained will be a long-term capital loss. If shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the Participant generally will recognize ordinary income in the year of disposition in an amount equal to any excess of the fair market value of the shares at the time of exercise (or, if less, the amount realized on the disposition of the shares) over the option price paid for the shares. Any further gain (or loss) realized by the Participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period. Subject to certain exceptions for death or disability, if a Participant exercises an ISO more than three months after termination of employment, the exercise of the option will be taxed as the exercise of a non-statutory stock option. In addition, the exercise of an ISO will be treated essentially the same as the exercise of a non-statutory stock option for purposes of the federal alternative minimum tax ("AMT"), which exercise may subject the Participant to AMT.

A recipient of restricted shares generally will be subject to tax at ordinary income rates on the fair market value of the restricted shares (reduced by any amount paid by the recipient) at such time as the shares are no longer subject to a risk of forfeiture or restrictions on transfer for purposes of Section 83 of the Code. However, a recipient who so elects under Section 83(b) of the Code within 30 days of the date of transfer of the restricted shares, will recognize ordinary income on the date of transfer of the shares equal to the excess of the fair market value of the restricted shares (determined without regard to the risk of forfeiture or restrictions on transfer) over any purchase price paid for the shares. If a Section 83(b) election has not been made, any dividends received with respect to restricted shares that are subject at that time to a risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the recipient.

To the extent that a Participant recognizes ordinary income in the circumstances described above, the Company or subsidiary for which the Participant performs services will be entitled to a corresponding deduction, provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Code and is not disallowed by the \$1,000,000 limitation on certain executive compensation under Section 162(m) of the Code.

#### Benefits to Directors and Executive Officers

Awards under the Plan are made at the Board's discretion. Accordingly, future awards under the Plan, particularly to directors and executive officers, are not determinable at this time.

The affirmative vote of a majority of the votes present or represented and entitled to vote at the Meeting is required to approve the increase in the aggregate number of shares of common stock available under the Plan.

The Board of Directors recommends a vote to “FOR” the Amendment to the 2006 Stock Incentive Plan, and proxies solicited by the Board will be voted in favor of such amendment unless a stockholder indicates otherwise on the proxy.

Information Analysis Incorporated

2012 Proxy Statement

### CODE OF CONDUCT AND ETHICS

We have adopted a code of conduct and ethics that applies to all of our employees, including our chief executive officer and chief financial and accounting officers. The text of the code of conduct and ethics is posted on our Web site at [www.infoa.com](http://www.infoa.com) under the Investor Relations section of the Company Profile and will be made available to stockholders without charge, upon request, in writing to the Corporate Secretary at Information Analysis Incorporated, 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030. Disclosure regarding any amendments to, or waivers from, provisions of the code of conduct and ethics that apply to our directors, principal executive and financial officers will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver.

### OTHER MATTERS

The Board of Directors knows of no other business which will be presented to the Annual Meeting. If any other business is properly brought before the Annual Meeting, proxies in the enclosed form will be voted in accordance with the judgment of the persons voting the proxies.

### STOCKHOLDER PROPOSALS AND NOMINATIONS FOR DIRECTOR

To be considered for inclusion in the proxy statement relating to our Annual Meeting of Stockholders to be held in 2013, stockholder proposals must be received no later than January 3, 2013. If we do not receive notice of any matter to be considered for presentation at the Annual Meeting, although not included in the proxy statement, by March 31, 2013, management proxies may confer discretionary authority to vote on the matters presented at the Annual Meeting by a stockholder in accordance with Rule 14a-4 under the Securities Exchange Act. All stockholder proposals should be marked for the attention of Richard S. DeRose, Secretary, Information Analysis Incorporated, 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030.

Fairfax, Virginia  
May 3, 2012

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (other than exhibits thereto) filed with the SEC, which provides additional information about us, is available on the Internet at [www.infoa.com](http://www.infoa.com) and is available in paper form to beneficial owners of our common stock without charge upon written request to Richard S. DeRose, Secretary, Information Analysis Incorporated, 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by Sandor Rosenberg, President and Chief Executive Officer, and attested to by Richard S. DeRose, Secretary, this 3rd day of May, 2012.

INFORMATION ANALYSIS  
INCORPORATED

By: /s/ Sandor Rosenberg  
Sandor Rosenberg  
President and Chief Executive  
Officer

ATTEST:

/s/ Richard S. DeRose  
Richard S. DeRose  
Secretary

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APPENDIX A

INFORMATION ANALYSIS INCORPORATED

2006 STOCK INCENTIVE PLAN  
(as Amended by Stockholders June 12, 2012)

ARTICLE 1

GENERAL PROVISIONS

1.1 Purpose.

This Stock Incentive Plan (the "Plan") is intended to allow designated officers, employee-directors and employees (all of whom are sometimes collectively referred to herein as "Employees") and certain non-employee directors, independent advisors and consultants (all of whom are sometimes collectively referred to as "Selected Persons") of Information Analysis, Inc. ("IAI," and its Subsidiaries which it may have from time to time (IAI, and such Subsidiaries are referred to herein as the "Company") to receive certain options ("Stock Options") to purchase IAI common stock, \$0.01 par value ("Common Stock"), and to receive grants of Common Stock subject to certain restrictions ("Awards"). As used in this Plan, the term "Subsidiary" shall mean each corporation which is a "subsidiary corporation" of IAI, within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code").

The main purpose of this Plan is to provide Employees and Selected Persons with equity-based compensation incentives to make significant and extraordinary contributions to the long-term performance and growth of the Company, and to attract and retain Employees and Selected Persons of exceptional ability.

1.2 Administration.

The Plan shall be administered by IAI's Board of Directors (the "Board") and/or by a duly appointed Compensation Committee (the Committee) having such powers as shall be specified by the Board. The provisions of IAI's Charter, By-Laws and of applicable Virginia law shall govern the Board and/or Committee, except as otherwise provided herein or determined by the Board. Any subsequent references to the Board shall also mean the Committee if it has been appointed.

In the case of an appointed Committee, a combination of two or more officers and/or directors of the Company, including individuals who may be both officers and directors of the Company, will administer the Plan within any limitations determined by the Board. The Committee shall select one of its members as Chairman and shall act by vote of a majority of a quorum, or by unanimous written consent. A majority of its members shall constitute a quorum. The Committee shall keep records of its meetings and shall make such rules for the conduct of its business as the Board shall deem advisable.

The Board shall have full and complete authority, in its discretion, but subject to the express provisions of the Plan to: (i) approve the Employees and Selected Persons nominated by the management of the Company to be granted Awards or Stock Options; (ii) to determine the number of Awards or Stock Options to be granted to an Employee or Selected Person; (iii) to determine the time or times at which Awards or Stock Options shall be granted; (iv) to establish the terms and conditions upon which Awards or Stock Options may be exercised; (v) to remove or adjust any restrictions and conditions upon Awards or Stock Options; (vi) to specify, at the time of grant, provisions relating to exercisability of Stock Options and (vii) to accelerate or otherwise modify the exercisability of any Stock Options; (viii) and to

adopt such rules and regulations and to make all other determinations deemed necessary or desirable for the administration of the Plan. All interpretations and constructions of the Plan by the Board, and all of its actions hereunder, shall be binding and conclusive on all persons for all purposes.

If the Company is to be consolidated with or acquired by another entity in a merger, sale of all or substantially all of the Company's assets other than a transaction to merely change the state of incorporation (a "Corporate Transaction"), the Board or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board"), shall, as to outstanding Options, either (i) make appropriate provision for the continuation of such Options by substituting on an equitable basis for the Shares then subject to such Options either the consideration payable with respect to the outstanding shares of Common Stock in connection with the Corporate Transaction or securities of any successor or acquiring entity; or (ii) upon written notice to the Participants, provide that all Options must be exercised (either to the extent then exercisable or, at the discretion of the Board or, upon a change of control of the Company, all Options being made fully exercisable for purposes of this Subparagraph), within a specified number of days of the date of such notice, at the end of which period the Options shall terminate; or (iii) terminate all Options in exchange for a cash payment equal to the excess of the Fair Market Value of the Shares subject to such Options (either to the extent then exercisable or, at the discretion of the Board, all Options being made fully exercisable for purposes of this Subparagraph) over the exercise price thereof.

The Company hereby agrees to indemnify and hold harmless each Board member and each employee of the Company, and the estate and heirs of such Board member or employee, against all claims, liabilities, expenses, penalties, damages or other pecuniary losses, including legal fees, which such Board member or employee, his or her estate or heirs may suffer as a result of his or her responsibilities, obligations or duties in connection with the Plan, to the extent that insurance, if any, does not cover the payment of such items. No member of the Committee or the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Award or Stock Option granted pursuant to the Plan.

### 1.3 Eligibility and Participation.

Individuals eligible under the Plan shall be approved by the Board from those Employees and Selected Persons who, in the opinion of the management of the Company, are in positions that enable them to make significant and extraordinary contributions to the long-term performance and growth of the Company. In selecting Employees and Selected Persons to whom Stock Options or Awards may be granted, consideration shall be given to such factors including but not limited to employment position, duties and responsibilities, ability, productivity, length of service, morale, interest in the Company and recommendations of supervisors.

The Board will, in its sole discretion, approve the participants in the Plan, provided, however, that each participant must be an Employee or Selected Person of the Company or subsidiary at the time an Option is granted. Notwithstanding the foregoing, the Committee may authorize the grant of an Option to a person not then an Employee of the Company; provided, however, that the actual grant of such Option shall be conditioned upon such person becoming eligible to become a participant at or prior to the time of the execution of the Option Agreement evidencing such Option. Statutory Stock Options (Incentive Stock Options) may be granted only to Employees. Non-statutory Stock Options (Non-qualified Options) may be granted to any Employee or Selected Person of the Company. The granting of any Option to any individual shall neither entitle that individual to, nor disqualify him or her from, participation in any other grant of stock options.

### 1.4 Shares Subject to the Plan.

Subject to adjustment as provided in Section 4.1, the maximum number of shares of Common Stock that may be issued pursuant to the Plan shall be one million nine hundred fifty thousand (1,950,000). If shares of Common Stock awarded or issued under the Plan are reacquired by the Company due to forfeiture or for any other reason, such shares shall be cancelled and thereafter shall again be available for purposes of the Plan. If a Stock Option expires, terminates or is cancelled for any reason without having been exercised in full, the shares of Common Stock not purchased thereunder shall again be available for purposes of the Plan.





## ARTICLE 2

### PROVISIONS RELATING TO STOCK OPTIONS

#### 2.1 Grants of Stock Options.

The Board may grant Stock Options in such amounts, at such times, and to such Employees and Selected Persons nominated by the management of the Company as the Board, in its discretion, may determine. Stock Options granted under the Plan shall constitute "Incentive Stock Options" within the meaning of Section 422 of the Code, if so designated by the Board on the date of grant. The Board shall also have the discretion to grant Stock Options, which do not constitute Incentive Stock Options, and any such Stock Options shall be designated Non-statutory stock options by the Board on the date of grant.

The aggregate fair market value (determined as of the time an Incentive Stock Option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by any Employee during any one calendar year (under all plans of the Company and any parent or Subsidiary of the Company) may not exceed the maximum amount permitted under Section 422 of the Code (currently \$100,000.00). Non-statutory stock options shall not be subject to the limitations relating to incentive stock options contained in the preceding sentence.

Each Stock Option shall be evidenced by a written agreement (the "Option Agreement") in a form approved by the Board, which shall be executed on behalf of the Company and by the Employee or Selected Person to whom the Stock Option is granted, and which shall be subject to the terms and conditions of this Plan. In the discretion of the Board, Stock Options may include provisions (which need not be uniform), authorized by the Board in its discretion, that accelerate an Employee's rights to exercise Stock Options following a "Change in Control", upon termination of such Employee employment by the Company without "Cause" or by the Employee for "Good Reason," as such terms are defined in Section 3.1 hereof. The holder of a Stock Option shall not be entitled to the privileges of stock ownership as to any shares of Common Stock not actually issued to such holder.

#### 2.2 Purchase Price.

The purchase price (the "Exercise Price") of shares of Common Stock subject to each Stock Option ("Option Shares") shall be fixed by the Board. In regard to the grant of an Incentive Stock Option, the exercise price shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the issuance date. Notwithstanding the foregoing, the Exercise Price of Option Shares subject to an Incentive Stock Option granted to an Employee who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any parent or Subsidiary shall be at least equal to 110% of the Fair Market Value of such shares on the date of grant of such Stock Option. The exercise price for Non-statutory Options shall be determined by the Board and may be less than Fair Market Value.

"Fair Market Value" means, as of any date, the value of Common Stock determined as follows: (i) If the Common Stock is listed on a national securities exchange or traded in the over-the-counter market and sales prices are regularly reported for the Common Stock, its Fair Market Value shall be the closing or last price of the Common Stock on the Composite Tape or other comparable reporting system for the trading day immediately preceding the date of determination; or (ii) If the Common Stock is not traded on a national securities exchange, but is traded on the over-the-counter market, and if sales prices are not regularly reported for the Common Stock for the trading day and if bid and asked prices for the Common Stock are regularly reported, then its Fair Market Value shall be the mean between the bid and the asked price for the Common Stock at the close of trading in the over-the-counter market for the trading day on which Common Stock was traded immediately preceding the date of determination; or (iii) If the Common Stock is neither listed on a national securities exchange nor regularly traded in the over-the-counter market

in such volume so as to reasonably establish true marketable value, the Fair Market Value shall be determined in good faith by the Board consistent with past practice.

### 2.3 Option Period.

The Stock Option period (the "Term") shall commence on the date of grant of the Stock Option and shall be ten (10) years or such shorter period as is determined by the Board. Notwithstanding the foregoing, the Term of an Incentive Stock Option granted to an Employee or Selected Person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any parent or Subsidiary shall not exceed five (5) years.

Each Stock Option shall provide that it is exercisable over its term in such periodic installments as the Board in its sole discretion may determine. Such provisions need not be uniform. Unless otherwise provided for by the Board in the grant of the Stock Option, any Stock Option granted hereunder shall be exercisable in full immediately upon grant. Notwithstanding the foregoing, but subject to the provisions of Sections 1.2 and 2.1, Stock Options granted to Employees and Selected Persons who are subject to the reporting requirements of Section 16(a) of the Exchange Act ("Section 16 Reporting Persons") shall not be exercisable until at least six months and one day from the date the Stock Option is granted unless the Board adjusts the waiting period as they deem appropriate. The adjustment of the waiting period is to give the Company an ability to attract and retain qualified individuals.

### 2.4 Exercise of Options.

Each Stock Option may be exercised in whole or in part (but not as to fractional shares) by delivering it for surrender or endorsement to the Company, attention of the President, at the principal office of the Company, together with payment of the Exercise Price and an executed Notice and Agreement of Exercise in a form prescribed by the following paragraph. Payment may be made (i) in cash, (ii) by cashier's or certified check, (iii) by surrender of previously owned shares of the Company's Common Stock valued pursuant to Section 2.2 (if the Board authorizes payment in stock in its discretion), or (iv) in the discretion of the Board, by the delivery to the Company of the Optionee's promissory note secured by the Option Shares, bearing interest at a rate sufficient to prevent the imputation of interest under Sections 483 or 1274 of the Code, and having such other terms and conditions as may be satisfactory to the Board.

Exercise of each Stock Option is conditioned upon the agreement of the Employee or Selected Person to the terms and conditions of this Plan and of such Stock Option as evidenced by the Employee's or Selected Person's execution and delivery of a Notice and Agreement of Exercise in a form to be determined by the Board in its discretion. Such Notice and Agreement of Exercise shall set forth the agreement of the Employee or Selected Person that: (a) no Option Shares will be sold or otherwise distributed in violation of the Securities Act of 1933 (the "Securities Act") or any other applicable federal or state securities laws, (b) each Option Share certificate may be imprinted with legends reflecting any applicable federal and state securities law restrictions and conditions, (c) the Company may comply with said securities law restrictions and issue "stop transfer" instructions to its Transfer Agent and Registrar without liability, (d) if the Employee or Selected Person is a Section 16 Reporting Person, said person will furnish to the Company a copy of each Form 4 or Form 5 filed by said Employee or Selected Person and will timely file all reports required under federal securities laws, and (e) the Employee or Selected Person will report all sales of Option Shares to the Company in writing on a form prescribed by the Company.

No Stock Option shall be exercisable unless and until any applicable registration or qualification requirements of federal and state securities laws, and all other legal requirements, have been fully complied with. The Company will use reasonable efforts to file and maintain the effectiveness of a Registration Statement under the Securities Act for the issuance of Stock Options and shares acquired thereunder, but there may be times when no such Registration Statement will be currently effective. The Company shall have no obligation to file any Registration Statement, but may do so solely at the discretion of the Board. The exercise of Stock Options may be temporarily suspended without liability to the Company during times when no such Registration Statement is currently effective, or during times

when, in the reasonable opinion of the Board, such suspension is necessary to preclude violation of any requirements of applicable law or regulatory bodies having jurisdiction over the Company. If any Stock Option would expire for any reason except the end of its term during such a suspension, then if exercise of such Stock Option is duly tendered before its expiration, such Stock Option shall be exercisable and exercised (unless the attempted exercise is withdrawn) as of the first day after the end of such suspension.

## 2.5 Continuous Employment.

Except as provided in Section 2.7 below, an Employee may not exercise a Stock Option unless from the date of grant to the date of exercise such Employee remains continuously in the employ of the Company. For purposes of this Section 2.5, the period of continuous employment of an Employee with the Company shall be deemed to include (without extending the term of the Stock Option) any period during which such Employee is on leave of absence with the consent of the Company, provided that such leave of absence shall not exceed three months and that such Employee returns to the employ of the Company at the expiration of such leave of absence. If such Employee fails to return to the employ of the Company at the expiration of such leave of absence, such Employee's employment with the Company shall be deemed terminated as of the date such leave of absence commenced. The continuous employment of an Employee with the Company shall also be deemed to include any period during which such Employee is a member of the Armed Forces of the United States, provided that such Employee returns to the employ of the Company within 90 days (or such longer period as may be prescribed by law) from the date such Employee first becomes entitled to discharge. If an Employee does not return to the employ of the Company within 90 days (or such longer period as may be prescribed by law) from the date such Employee first becomes entitled to discharge, such Employee's employment with the Company shall be deemed to have terminated as of the date such Employee's military service ended.

## 2.6 Restrictions on Transfer.

Each Stock Option granted under this Plan shall be transferable only by will or the laws of descent and distribution. No interest of any Employee or Selected Person under the Plan shall be subject to attachment, execution, garnishment, sequestration, the laws of bankruptcy or any other legal or equitable process. Each Stock Option granted under this Plan shall be exercisable during an Employee's or Selected Person's lifetime only by such Employee or Selected Person or by such Employee's or Selected Persons legal representative.

## 2.7 Termination of Employment.

Upon an Employee's or Selected Persons Retirement, Disability or death, (a) all Stock Options to the extent then presently exercisable shall remain in full force and effect and may be exercised pursuant to the provisions thereof, including expiration at the end of the fixed term thereof, and (b) unless otherwise provided by the Board, all Stock Options to the extent not then presently exercisable by such Employee or Selected Person shall terminate as of the date of such termination of employment or service and shall not be exercisable thereafter.

Upon the termination of the employment of an Employee or Selected Person with the Company for any reason other than the reasons set forth above, (a) all Stock Options to the extent then presently exercisable by such Employee or Selected Person shall remain exercisable only for a period of 90 days after the date of such termination of employment or service (except that the 90-day period shall be extended to 12 months if the Employee or Selected Person shall die during such 90-day period), and may be exercised pursuant to the provisions thereof, including expiration at the end of the fixed term thereof, and (b) unless otherwise provided by the Board, all Stock Options to the extent not then presently exercisable by such Employee or Selected Person shall terminate as of the date of such termination of employment or service and shall not be exercisable thereafter.

For purposes of this Plan:

"Retirement" shall mean an Employee's or Selected Person's retirement from the employ of the Company on or after the date on which such Employee or Selected Person attains the age of sixty-five (65) years; and

"Disability" shall mean total and permanent incapacity of an Employee or Selected Person, due to physical impairment or legally established mental incompetence, to perform the usual duties of such Employee's or Selected Person's employment with the Company, which disability shall be determined: (i) on medical evidence by a licensed physician designated by the Board, or (ii) on evidence that the Employee or Selected Person has become entitled to receive primary benefits as a disabled employee under the Social Security Act in effect on the date of such disability.

ARTICLE 3

PROVISIONS RELATING TO AWARDS

3.1 Grant of Awards.

Subject to the provisions of the Plan, the Board shall have full and complete authority, in its discretion, but subject to the express provisions of this Plan, to (i) grant Awards pursuant to the Plan, (ii) determine the number of shares of Common Stock subject to each Award ("Award Shares"), (iii) determine the terms and conditions (which need not be identical) of each Award, including the consideration (if any) to be paid by the Employee or Selected Person for such Common Stock, which may, in the Board's discretion, consist of the delivery of the Employee's or Selected Person's promissory note meeting the requirements of Section 2.5, (iv) establish and modify performance criteria for Awards, and (v) make all of the determinations necessary or advisable with respect to Awards under the Plan.

Each award under the Plan shall consist of a grant of shares of Common Stock subject to a restriction period (after which the restrictions shall lapse), which shall be a period commencing on the date the award is granted and ending on such date as the Board shall determine (the "Restriction Period"). The Board may provide for the lapse of restrictions in installments, for acceleration of the lapse of restrictions upon the satisfaction of such performance or other criteria or upon the occurrence of such events as the Board shall determine, and for the early expiration of the Restriction Period upon an Employee's or Selected Person's death, Disability or Retirement as defined in Section 2.7, or, following a Change of Control, upon termination of an Employee's or Selected Person's employment by the Company without "Cause" or by the Employee or Selected Person for "Good Reason," as those terms are defined herein.

For purposes of this Plan:

"Change of Control" shall be deemed to occur (a) on the date the Company first has actual knowledge that any person (as such term is used in Sections 13(d) and 14(d) (2) of the Exchange Act) has become the beneficial owner (as defined in Rule 13(d)-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities, or (b) on the date the shareholders of the Company approve (i) a merger of the Company with or into any other corporation in which the Company is not the surviving corporation or in which the Company survives as a subsidiary of another corporation, (ii) a consolidation of the Company with any other corporation, or (iii) the sale or disposition of all or substantially all of the Company's assets or a plan of complete liquidation.

"Cause," when used with reference to termination of the employment of an Employee or Selected Person by the Company for "Cause," shall mean:

- a. the individual's continuing willful and material breach of his or her duties to the Company after he or she receives a demand from the Chief Executive of the Company or any other officer specifying the manner in which he or she has willfully and materially breached such duties, other than any such failure resulting from Disability of the individual or his or her resignation for "Good Reason," as defined herein; or
- b. the conviction of a felony; or
- c. the commission of fraud in the course of his or her employment with the Company, such as embezzlement or other material and intentional violation of law against the Company; or
- d. the gross misconduct causing material harm to the Company.



"Good Reason" shall mean any one or more of the following, occurring following or in connection with a Change of Control and within 90 days prior to the Employee's or Selected Persons resignation, unless the Employee or Selected Person shall have consented thereto in writing:

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- a. the assignment to the Employee of duties inconsistent with his or her executive status prior to the Change of Control or a substantive change in the officer or officers to whom he or she reports from the officer or officers to whom he or she reported immediately prior to the Change of Control; or
- b. the elimination or reassignment of a majority of the duties and responsibilities that were assigned to the Employee or Selected Person immediately prior to the Change of Control; or
- c. a reduction by the Company in the Employee's annual base salary as in effect immediately prior to the Change of Control; or
- d. the Company's requiring the Employee or Selected Person to be based anywhere outside a 35-mile radius from his or her place of employment immediately prior to the Change of Control, except for required travel on the Company's business to an extent substantially consistent with the Employee's or Selected Persons business travel obligations immediately prior to the Change of Control; or
- e. the failure of the Company to grant the Employee a performance bonus reasonably equivalent to the same percentage of salary the Employee normally received prior to the Change of Control, given comparable performance by the Company and the Employee; or

### 3.2 Incentive Agreements.

Each Award granted under the Plan shall be evidenced by a written agreement (an "Incentive Agreement") in a form approved by the Board and executed by the Company and the Employee or Selected Person to whom the Award is granted. Each Incentive Agreement shall be subject to the terms and conditions of the Plan and other such terms and conditions as the Board may specify, including without limitation, terms that condition the issuance of Common Stock upon the achievement of one or more performance goals.

### 3.3 Waiver of Restrictions.

The Board may modify or amend any Award under the Plan or waive any restrictions or conditions applicable to such Awards; provided, however, that the Board may not undertake any such modifications, amendments or waivers if the effect thereof materially increases the benefits to any Employee or Selected Person, or adversely affects the rights of any Employee or Selected Person without his or her consent.

### 3.4 Terms and Conditions of Awards.

- a. Upon receipt of an Award of shares of Common Stock under the Plan, even during the Restriction Period, an Employee or Selected Person shall be the holder of record of the shares and shall have all the rights of a shareholder with respect to such shares, subject to the terms and conditions of the Plan and the Award.
- b. Except as otherwise provided in this Section 3.4, shares of Common Stock received pursuant to the Plan shall not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period applicable to such shares. Any purported disposition of such Common Stock in violation of this Section 3.4 shall be null and void.
- c. If an Employee's or Selected Persons employment with the Company terminates prior to the expiration of the Restriction Period for an Award, subject to any provisions of the Award with respect to the Employee's or Selected Persons death, Disability or Retirement, or Change of Control, all shares of Common Stock subject to the Award shall be immediately forfeited by the Employee or Selected Person and reacquired by the Company, and the

Employee or Selected Person shall have no further rights with respect to the Award. In the discretion of the Board, an Incentive Agreement may provide that, upon the forfeiture by an Employee or Selected Person of Award Shares, the Company shall repay to the Employee or Selected Person the consideration (if any) which the Employee or Selected Person paid for the Award Shares on the grant of the Award. In the discretion of the Board, an Incentive Agreement may also provide that such repayment shall include an interest factor on such consideration from the date of the grant of the Award to the date of such repayment.

- d. The Board may require under such terms and conditions as it deems appropriate or desirable that (i) the certificates for Common Stock delivered under the Plan are to be held in custody by the Company or a person or institution designated by the Company until the Restriction Period expires, (ii) such certificates shall bear a legend referring to the restrictions on the Common Stock pursuant to the Plan, and (iii) the Employee or Selected Person shall have delivered to the Company a stock power endorsed in blank relating to the Common Stock.
- e. Shares of Common Stock issued under the Plan may, in the discretion of the Board, be fully and immediately vested upon issuance or may vest in one or more installments over the participant's period of employment or service or upon attainment of specified performance objectives. The Board shall determine the elements of the vesting schedule applicable to any unvested shares of Common Stock issued under the Plan. The participant shall have full stockholder rights with respect to any shares of Common Stock issued to the participant under the Plan, whether or not the participant's interest in those shares is vested. Accordingly, the participant shall have the right to vote such shares and to receive cash dividends, if any, paid on such shares.
- f. The Board may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock, which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the participant's cessation of employment or service or the attainment or non-attainment of the applicable performance objectives.

#### ARTICLE 4

##### MISCELLANEOUS PROVISIONS

###### 4.1 Adjustments Upon Change in Capitalization.

The number and class of shares subject to each outstanding Stock Option, the Exercise Price thereof (but not the total price), the maximum number of Stock Options that may be granted under the Plan, the minimum number of shares as to which a Stock Option may be exercised at any one time, and the number and class of shares subject to each outstanding Award, may be proportionately adjusted in the event of any increase or decrease in the number of the issued shares of Common Stock which results from a stock split or reverse stock split, payment of a stock dividend exceeding a total of 10% for which the record dates occur in any one fiscal year, a recapitalization (other than the conversion of certain convertible securities according to their terms), a combination of shares or other like capital adjustment, or any other increase or decrease in the number of issued Common Stock effected without receipt of consideration by the Company so that:

(i) upon exercise of the Stock Option, the Employee or Selected Person shall receive the number and class of shares such Employee or Selected Person would have received had such Employee or Selected Person been the holder of the number of shares of Common Stock for which the Stock Option is being exercised upon the date of such change or increase or decrease in the number of issued shares of the Company, and

(ii) upon the lapse of restrictions of the Award Shares, the Employee or Selected Person shall receive the number and class of shares such Employee or Selected Person would have received if the restrictions on the Award Shares had lapsed on the date of such change or increase or decrease in the number of issued shares of the Company. Notwithstanding the above, the Board may in its discretion, not subject the employee's stock options and/or awards to any decreases in the in the number of shares issued resulting from stock splits, dividends, recapitalization and/or any other actions of the Company that reduce the number of shares outstanding. In the event of adjustments that increase the number of shares outstanding, the employee's stock options and/or awards will be proportionately adjusted.



Upon a reorganization, merger or consolidation of the Company with one or more corporations as a result of which IAI is not the surviving corporation or in which IAI survives as a wholly-owned subsidiary of another corporation, or upon a sale of all or substantially all of the property of the Company to another corporation, or any dividend or distribution to shareholders of more than 25% of the Company's assets, adequate adjustment or other provisions may be made by the Company or other party to such transaction so that there shall remain and/or be substituted for the Option Shares and Award Shares provided for herein, the shares, securities or assets which would have been issuable or payable in respect of or in exchange for such Option Shares and Award Shares then remaining, as if the Employee or Selected Person had been the owner of such shares as of the applicable date. Any securities so substituted shall be subject to similar successive adjustments.

The Board may in its discretion, not subject the number of shares allocated to the Plan to any changes in the number of shares issued resulting from stock splits, dividends, recapitalization and/or any other action of the Company that affect the number of shares outstanding.

#### 4.2 Withholding Taxes.

The Company shall have the right at the time of exercise of any Stock Option, the grant of an Award, or the lapse of restrictions on Award Shares, to make adequate provision for any federal, state, local or foreign taxes which it believes are or may be required by law to be withheld with respect to such exercise ("Tax Liability"), to ensure the payment of any such Tax Liability. The Company may provide for the payment of any Tax Liability by any of the following means or a combination of such means, as determined by the Board in its sole and absolute discretion in the particular case: (i) by requiring the Employee or Selected Person to tender a cash payment to the Company, (ii) by withholding from the Employee's salary or Selected Person's payment, (iii) by withholding from the Option Shares which would otherwise be issuable upon exercise of the Stock Option, or from the Award Shares on their grant or date of lapse of restrictions, that number of Option Shares or Award Shares having an aggregate fair market value (determined in the manner prescribed by Section 2.2) as of the date the withholding tax obligation arises in an amount which is equal to the Employee's or Selected Person's Tax Liability or (iv) by any other method deemed appropriate by the Board. Satisfaction of the Tax Liability of a Section 16 Reporting Person may be made by the method of payment specified in clause (iii) above only if the following two conditions are satisfied:

- a. the withholding of Option Shares or Award Shares and the exercise of the related Stock Option occur at least six months and one day following the date of grant of such Stock Option or Award; and
- b. the withholding of Option Shares or Award Shares is made either (i) pursuant to an irrevocable election ("Withholding Election") made by such Employee or Selected Person at least six months in advance of the withholding of Options Shares or Award Shares, or (ii) on a day within a ten-day "window period" beginning on the third business day following the date of release of the Company's quarterly or annual summary statement of sales and earnings.

Anything herein to the contrary notwithstanding, a Withholding Election may be disapproved by the Board at any time.

#### 4.3 Amendments and Termination.

The Board of Directors may at any time suspend, amend or terminate this Plan provided, however, that any such earlier termination shall not affect any Option Agreements executed prior to the effective date of such termination. No amendment or modification of this Plan may be adopted, except subject to stockholder approval, which would: (a) materially increase the benefits accruing to Employees or Selected Persons and officers under this Plan, (b) materially increase the number of securities which may be issued under this Plan (except for adjustments

pursuant to Section 4.1 hereof), or (c) materially modify the requirements as to eligibility for participation in the Plan.

4.4 Successors in Interest.

The provisions of this Plan and the actions of the Board shall be binding upon all heirs, successors and assigns of the Company and of Employees, Selected Persons and officers.

#### 4.5 Other Documents.

All documents prepared, executed or delivered in connection with this Plan (including, without limitation, Option Agreements and Incentive Agreements) shall be, in substance and form, as established and modified by the Board; provided, however, that all such documents shall be subject in every respect to the provisions of this Plan, and in the event of any conflict between the terms of any such document and this Plan, the provisions of this Plan shall prevail.

#### 4.6 No Obligation to Continue Employment.

This Plan and grants hereunder shall not impose any obligation on the Company to continue to employ any Employee or Selected Person. Moreover, no provision of this Plan or any document executed or delivered pursuant to this Plan shall be deemed modified in any way by any employment contract between an Employee (or other employee) or Selected Person and the Company.

#### 4.7 Misconduct of an Employee.

Notwithstanding any other provision of this Plan, if an Employee or Selected Person commits fraud or dishonesty toward the Company or wrongfully uses or discloses any trade secret, confidential data or other information proprietary to the Company, or intentionally takes any other action materially inimical to the best interests of the Company, as determined by the Board, in its sole and absolute discretion, such individual shall forfeit all rights and benefits under this Plan.

#### 4.8 Term of Plan.

The Plan shall become effective on the date of its adoption by the Board subject to the approval of the Plan by the holders of the majority of the voting shares of stock of the Company represented at a meeting of the shareholders, within twelve (12) months of the effective date. No Stock Options or Awards shall be awarded pursuant to the Plan after the expiration of the ten-year period beginning on the date the Plan is adopted by the Board.

#### 4.9 Governing Law.

This Plan shall be construed in accordance with, and governed by, the laws of the State of Virginia.

#### 4.10 Shareholder Approval.

No Stock Option shall be exercisable, or Award granted, unless and until the Shareholders of the Company have approved this Plan and all other legal requirements have been fully complied with.

#### 4.11 Notice to Company of Disqualifying Disposition

Each Employee who receives an Incentive Stock Option must agree to notify the Company in writing immediately after the Employee makes a Disqualifying Disposition of any shares acquired pursuant to the exercise of an Incentive Stock Option. A Disqualifying Disposition is defined in Section 424(c) of the Code and includes any disposition (including any sale or gift) of such shares before the later of (a) two years after the date the Employee was granted the Incentive Stock Option, or (b) one year after the date the Employee acquired Shares by exercising the Incentive Stock Option, except as otherwise provided in Section 424(c) of the Code. If the Employee has died before such stock is sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.





#### 4.12 Compliance With Rule 16B-3.

Transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent that any provision of the Plan or action by the Board fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Board.

#### 4.13 Other Considerations

The Board may require each participant acquiring Common Stock pursuant to awards granted hereunder to represent to and agree with the Company in writing that such person is acquiring the Common Stock without a view to distribution thereof. The certificates for such Common Stock may include any legend that the Board deems appropriate to reflect any restrictions on transfer. All certificates for Common Stock issued pursuant to this Plan shall be subject to such stock transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed or interdealer quotation system upon which the Common Stock is then quoted, and any applicable federal or state securities laws. In the absence of an effective registration statement under the securities Act of 1933, as amended, the Board may place a legend or legends on any such certificates to make appropriate references to such restrictions.

#### 4.14 Limitation on Issuance of Certificate

The Company shall not be required to issue any certificate or certificates for Common Stock with respect to awards granted under this Plan, or record any person as a holder of record of such Common Stock, without obtaining, to the complete satisfaction of the Board, the approval of all regulatory bodies deemed necessary by the Board, and without complying to the Board's complete satisfaction, with all rules and regulations, under federal, state or local law deemed applicable by the Board.

Information Analysis Incorporated

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF  
DIRECTORS

ANNUAL MEETING OF STOCKHOLDERS – JUNE 12, 2012 AT  
10:00 AM

CONTROL ID:  
REQUEST ID:

The undersigned stockholder of INFORMATION ANALYSIS INCORPORATED hereby appoints Richard S. DeRose proxy with full power of substitution to act for and on behalf of the undersigned and to vote all stock outstanding in the name of the undersigned as of the close of business on April 23, 2012, which the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders (“Meeting”) to be held Tuesday, June 12, 2012, at our Corporate Headquarters located at 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030, commencing at 10:00 a.m. (local time), and at any and all adjournments or postponements thereof, upon all matters properly coming before the Meeting.

(CONTINUED AND TO BE SIGNED ON REVERSE SIDE.)

VOTING INSTRUCTIONS

If you vote by phone, fax or internet, please DO NOT mail your proxy card.

MAIL: Please mark, sign, date, and return this Proxy Card promptly using the enclosed envelope.  
FAX: Complete the reverse portion of this Proxy Card and Fax to 202-521-3464.  
INTERNET: <https://www.iproxydirect.com/IAIC>  
PHONE: 1-866-752-VOTE(8683)

ABC HOLDER  
400 MY STREET  
CHICAGO, IL 60605

ANNUAL MEETING OF THE STOCKHOLDERS OF INFORMATION ANALYSIS INCORPORATED

PLEASE COMPLETE, DATE, SIGN AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE: ý

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

	à	FOR ALL	AGAINST ALL	FOR ALL EXCEPT	
Proposal 1					
Elect four directors of the Company to hold office until their respective successors shall have been duly elected and qualified;		o	o		
Charles A. May, Jr.				..	CONTROL ID:
Sandor Rosenberg				..	REQUEST ID:
Bonnie K. Wachtel				..	
James D. Wester				..	
Proposal 2		FOR	AGAINST	ABSTAIN	
Ratification of Reznick Group, P.C. as independent registered public accountants;		..	..	..	
Proposal 3		FOR	AGAINST	ABSTAIN	
Amend the 2006 Stock Incentive Plan to increase the number of shares issuable pursuant to the Plan by 1,000,000; and		..	..	..	
Proposal 4		FOR	AGAINST	ABSTAIN	
Transact such other business as may properly come before the Annual Meeting and any adjournment(s) thereof.		..	..	..	

MARK "X" HERE IF YOU PLAN TO ATTEND THE MEETING: "

MARK HERE FOR ADDRESS CHANGE .. New Address (if applicable):

\_\_\_\_\_

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ALL NOMINEES IN PROPOSAL 1, AND "FOR"

PROPOSALS 2 AND 3.

IMPORTANT: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Dated: \_\_\_\_\_, 2012

(Print Name of Stockholder and/or Joint Tenant)

(Signature of Stockholder)

(Second Signature if held jointly)