

INFINITE GROUP INC
Form 10-Q
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended: March 31, 2015.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

Commission file number: 0-21816

INFINITE GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-1490422
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

80 Office Park Way
Pittsford, New York 14534
(Address of principal executive offices)

(585) 385-0610
(Registrant's telephone number)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated

Edgar Filing: INFINITE GROUP INC - Form 10-Q

filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. There were 26,561,883 shares of the issuer's common stock, par value \$.001 per share, outstanding as of May 14, 2015.

Infinite Group, Inc.
 Quarterly Report on Form 10-Q
 For the Period Ended March 31, 2015

Table of Contents

	PAGE
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Balance Sheets – March 31, 2015 (Unaudited) and December 31, 2014	3
Statements of Operations (Unaudited) for the three months ended March 31, 2015 and 2014	4
Statements of Cash Flows (Unaudited) for the three months ended March 31, 2015 and 2014	5
Notes to Financial Statements – (Unaudited)	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures About Market Risk	14
Item 4. Controls and Procedures	14
PART II - OTHER INFORMATION	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 5. Other Information	15
Item 6. Exhibits	15
SIGNATURES	16

FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the

inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. The terms “we”, “our”, “us”, or any derivative thereof, as used herein refer to Infinite Group, Inc., a Delaware corporation.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

INFINITE GROUP, INC.

Balance Sheets

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash	\$34,632	\$7,768
Accounts receivable, net of allowances of \$70,000	379,462	359,599
Prepaid expenses and deferred charges, net	32,785	43,654
Total current assets	446,879	411,021
Property and equipment, net	54,435	60,039
Software	180,000	0
Investment	101,000	109,000
Deposits and deferred charges, net	32,626	36,956
Total Assets	\$814,940	\$617,016
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	\$430,058	\$341,977
Accrued payroll	285,240	148,918
Accrued interest payable	524,411	503,014
Accrued retirement	210,534	208,449
Accrued expenses - other	53,137	58,888
Current maturities of long-term obligations	13,532	14,388
Current maturities of long-term obligations - related parties	13,408	8,172
Notes payable	435,000	30,000
Notes payable - related parties	548,300	129,000
Total current liabilities	2,513,620	1,442,806
Long-term obligations:		
Notes payable:		
Banks and other	1,180,999	1,509,018
Related parties	330,267	664,828
Total liabilities	4,024,886	3,616,652
Commitments		
Stockholders' deficiency:		
Common stock, \$.001 par value, 60,000,000 shares authorized; 26,561,883 shares issued and outstanding	26,561	26,561
Additional paid-in capital	30,436,649	30,422,242
Accumulated deficit	(33,673,156)	(33,448,439)

Total stockholders' deficiency	(3,209,946)	(2,999,636)
Total Liabilities and Stockholders' Deficiency	\$814,940	617,016

See notes to unaudited financial statements.

3

INFINITE GROUP, INC.
Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Sales	\$2,169,638	\$2,014,417
Cost of sales	1,693,226	1,506,164
Gross profit	476,412	508,253
Costs and expenses:		
General and administrative	397,591	325,224
Selling	232,419	244,018
Total costs and expenses	630,010	569,242
Operating loss	(153,598)	(60,989)
Loss on investment	(8,000)	(15,000)
Interest expense:		
Related parties	(19,175)	(11,517)
Other	(43,944)	(71,769)
Total interest expense	(63,119)	(83,286)
Net loss	\$(224,717)	\$(159,275)
Net loss per share - basic and diluted	\$ (.01)	\$ (.01)
Weighted average shares outstanding - basic and diluted	26,561,883	25,961,883

See notes to unaudited financial statements.

INFINITE GROUP, INC.

Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(224,717)	\$(159,275)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock based compensation	14,407	58,805
Depreciation and amortization	5,604	6,288
Loss on investment	8,000	15,000
(Increase) decrease in assets:		
Accounts receivable	(19,863)	203,086
Other assets	15,198	(4,255)
Increase (decrease) in liabilities:		
Accounts payable	88,082	35,022
Accrued expenses	151,968	(147,022)
Accrued retirement	2,085	2,003
Net cash provided by operating activities	40,764	9,652
Cash flows from investing activities:		
Purchase of software	(100,000)	0
Purchases of property and equipment	0	(3,634)
Net cash used by investing activities	(100,000)	(3,634)
Cash flows from financing activities:		
Proceeds from notes payable - related parties	145,000	0
Repayments of notes payable - other	(3,875)	(5,222)
Repayments of notes payable - related parties	(55,025)	0
Net cash provided (used) by financing activities	86,100	(5,222)
Net increase in cash	26,864	796
Cash - beginning of period	7,768	16,947
Cash - end of period	\$34,632	\$17,743
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	\$42,844	\$62,504
Income taxes	\$0	\$0

See notes to unaudited financial statements.

INFINITE GROUP, INC.

Notes to Financial Statements - (Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited financial statements of Infinite Group, Inc. ("Infinite Group, Inc." or the "Company") included herein have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (U.S.) ("GAAP") for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. The December 31, 2014 balance sheet has been derived from the audited financial statements at that date, but does not include all disclosures required by GAAP. The accompanying unaudited financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the U.S. Securities and Exchange Commission (SEC). Results of operations for the three months ended March 31, 2015 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2015.

Note 2. Management Plans - Capital Resources

The Company reported operating losses of \$153,598 and \$60,989 and net losses of \$224,717 and \$159,275 for the three months ended March 31, 2015 and 2014, respectively.

The Company's primary source of liquidity is cash provided by collections of accounts receivable and its factoring line of credit. At March 31, 2015, the Company had approximately \$110,000 of availability under this line. During the three months ended March 31, 2015, the Company financed its business activities through sales with recourse of accounts receivable and loans from a director and from an officer of the Company.

The Company's working capital deficit increased from \$1,032,000 at December 31, 2014 to \$2,067,000 at March 31, 2015 principally due to the scheduled maturity on January 1, 2016 of notes payable of \$419,300 to related parties and \$325,000 to others which total \$744,300. We also originated a short-term secured promissory note in the principal amount of \$80,000 during the three months ended March 31, 2015 in connection with the purchase of UberScan software. We plan to renegotiate the terms of the notes payable, seek funds to repay the notes or use a combination of both alternatives.

The Company believes the capital resources available under its factoring line of credit, cash from additional related party loans and cash generated by improving the results of its operations provide sources to fund its ongoing operations and to support the internal growth the Company expects to achieve for at least the next 12 months. However, if the Company does not continue to maintain or improve the results of its operations in future periods, the Company expects that additional working capital will be required to fund its business. Although the Company has no assurances, the Company believes that related parties, who have previously provided working capital, will continue to provide working capital loans on similar terms, as in the past, as may be necessary to fund its on-going operations for at least the next 12 months.

If the Company experiences significant growth in its sales, the Company believes that this may require it to increase its financing line, finance additional accounts receivable, or obtain additional working capital from other sources to support its sales growth. There is no assurance that in the event the Company needs additional funds that adequate additional working capital will be available or, if available, will be offered on acceptable terms.

Note 3. Summary of Significant Accounting Policies

There are several accounting policies that the Company believes are significant to the presentation of its financial statements. These policies require management to make complex or subjective judgments about matters that are inherently uncertain. Note 3 to the Company's audited financial statements for the year ended December 31, 2014 presents a summary of significant accounting policies as included in the Company's Annual Report on Form 10-K as filed with the SEC.

Fair Value of Financial Instruments - The carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the immediate short-term maturity of these financial instruments. The carrying value of notes payable and convertible notes payable approximates the fair value based on rates currently available from financial institutions and various lenders.

Recent Accounting Pronouncements Not Yet Adopted - In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a retrospective or cumulative effect transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, subsequently extended to December 31, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The Company is currently evaluating the effect that the updated standard will have on its financial statements and related disclosures.

Note 4. Sale of Certain Accounts Receivable

The Company has available a financing line with a financial institution (the Purchaser) which enables the Company to sell selected accounts receivable invoices to the Purchaser with full recourse against the Company.

Pursuant to the provisions of FASB ASC 860, the Company reflects the transactions as a sale of assets and establishes an accounts receivable from the Purchaser for the retained amount less the costs of the transaction and less any anticipated future loss in the value of the retained asset. In April 2014, the Company completed a revised financing agreement with the Purchaser. The retained amount was revised to 15% of the total accounts receivable invoice sold to the Purchaser. Previously the retained amount was 20%. The fee for the initial purchase is .466% of the invoice. The fee is charged at prime plus 4% (effective rate of 7.25% at March 31, 2015) against the average daily outstanding balance of funds advanced. Previously, the fee for the first 30 days was 1% and additional fees were charged against the average daily balance of net outstanding funds at the prime rate, which was 3.25% per annum as of March 31, 2014. The estimated future loss reserve for each receivable included in the estimated value of the retained asset is based on the payment history of the accounts receivable customer and is included in the allowance for doubtful accounts, if any. As collateral, the Company granted the Purchaser a first priority interest in accounts receivable and a blanket lien, which may be junior to other creditors, on all other assets.

The financing line provides the Company the ability to finance up to \$2,000,000 of selected accounts receivable invoices, which includes a sublimit for one of the Company's customers of \$1,500,000. During the three months ended March 31, 2015, the Company sold approximately \$1,895,000 (\$2,123,000 - March 31, 2014) of its accounts receivable to the Purchaser. As of March 31, 2015, approximately \$797,000 (\$1,078,000 - December 31, 2014) of these receivables remained outstanding. Additionally, as of March 31, 2015, the Company had approximately \$110,000 available under the financing line with the financial institution (\$90,000 - December 31, 2014). After deducting estimated fees and advances from the Purchaser, the net receivable from the Purchaser amounted to \$119,500 at March 31, 2015 (\$215,600 - March 31, 2014), and is included in accounts receivable in the accompanying

balance sheets.

There were no gains or losses on the sale of the accounts receivable because all were collected. The cost associated with the financing line totaled approximately \$22,323 for the three months ended March 31, 2015 (\$43,117 - March 31, 2014). These financing line fees are classified on the statements of operations as interest expense.

7

Note 5. Earnings per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the periods presented. Diluted earnings per share is based on the weighted average number of common shares outstanding, as well as dilutive potential common shares which, in the Company's case, comprise shares issuable under convertible notes payable and stock options. The treasury stock method is used to calculate dilutive shares, which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options and warrants assumed to be exercised. In a loss period, the calculation for basic and diluted earnings per share is considered to be the same, as the impact of potential common shares is anti-dilutive.

The following table sets forth the computation of basic and diluted loss per share for the three months ended:

	March 31, 2015	March 31, 2014
Numerator for basic and diluted net loss per share:		
Net loss	\$(224,717)	\$(159,275)
Denominator for basic and diluted net loss per share:		
Weighted average common shares outstanding	26,561,883	25,961,883
Basic and diluted net loss per share	\$ (.01)	\$ (.01)
Anti-dilutive shares excluded from net loss per share calculation	29,389,749	31,704,552

Certain common shares issuable under stock options and convertible notes payable have been omitted from the diluted net loss per share calculation because their inclusion is considered anti-dilutive because the exercise prices were greater than the average market price of the common shares or their inclusion would have been anti-dilutive.

Note 6. Investment

During 2014 and 2013, the Company purchased 300,000 shares of the authorized but unissued shares of Series A Convertible Preferred Stock ("Series A stock"), \$.001 par value, of Sudo.me Corporation (goSudo) for an aggregate purchase price of \$300,000 pursuant to the terms and conditions of a preferred stock purchase agreement. goSudo is a customer of the Company. As a result, at March 31, 2015, the Company owns approximately 9.4% of the total outstanding shares of goSudo.

The investment is accounted for using the equity method since Company management exercises significant influence over the operating and financial policies of goSudo. Beginning in 2012 certain officers and directors of the Company made loans to goSudo and converted loans to Series A stock. In addition, one former Company employee, whose employment extended through June 30, 2014, is one of four members of the board of directors of goSudo and, was active in managing goSudo's business. The Company's chief executive officer is a member of the board of directors and is President of goSudo. As a result of the foregoing, the Company is deemed to have significant influence upon goSudo's policy and operating decisions. During the three months ended March 31, 2015, the investment was written down by \$8,000 (\$15,000 - 2014). The investment has a carrying value of \$101,000 at March 31, 2015 (\$109,000 at December 31, 2014).

Unaudited financial information for goSudo as of and for the three months ended March 31, 2015 reflects total assets of \$8,785, total liabilities of \$770,153, and a net loss of \$86,089. goSudo is a development stage enterprise. During the three months ended March 31, 2015, goSudo earned consulting fees of \$4,406 from the Company.

Note 7. Software Purchase

On February 6, 2015, the Company purchased all rights to cyber security network vulnerability assessment software (the "Software"). Under the purchase agreement, the Company agreed to pay the Seller the base purchase price of \$180,000, of which \$100,000 was paid in cash at the closing and the remaining \$80,000 of which was paid by delivery at the closing of the Company's secured promissory note in the principal amount of \$80,000. After April 7, 2015, the note accrues interest at 10% per annum. The note was amended to extend the maturity date to October 7, 2015. As security for its obligations under the promissory note, the Company granted the Seller a security interest in the Software. The cost of \$180,000 is amortized over the estimated useful life of five years beginning on the date the asset is placed in service. Amortization expense in future periods is estimated to be \$27,000 in 2015, \$36,000 in 2016 to 2019 and \$9,000 in 2020.

Under the purchase agreement, in addition to the base purchase price, the Company also agreed to pay the Seller: (i) a percentage of the licensing fees paid to the Company within three years after the closing date; provided, that the maximum amount payable to the Seller with respect to that three-year period is \$800,000; plus (ii) a percentage of the licensing fees paid to the Company during the three years beginning on the date, if any, on which the aggregate amount of the licensing fees paid to Seller with respect to the initial three-year period equals \$800,000. The royalties are payable quarterly within 30 days after the end of each calendar quarter.

The purchase agreement also provides that the Company will pay the Seller one half of the amount by which the total software development costs incurred by the Company in connection with upgrading the Software to include specific functional specifications is less than \$500,000. The Company has determined the potential obligation is not probable and accordingly no liability was recorded at March 31, 2015.

To finance the portion of the base purchase price paid in cash at the closing under the purchase agreement, the Company borrowed \$100,000 under an unsecured line of credit financing agreement (the "LOC Agreement") with a member of its board of directors. In connection with the closing, the Company entered into an employment agreement with one of the Seller's principals to employ him as Director of CyberSecurity for three years.

Note 8. Notes Payable - Related Parties

Note payable, line of credit, 6.1%, unsecured - During the three months ended March 31, 2015, the Company borrowed \$120,000 under the terms of its LOC Agreement with a member of its board of directors. The balance of the note, after monthly principal payments, was \$318,675 at March 31, 2015 (\$200,000 at December 31, 2014). Principal and interest are paid monthly using an amortization schedule for a fifteen year fully amortizing loan with all outstanding amounts due on December 31, 2017.

Term Note Payable, 7% - On February 12, 2015, the Company received a loan of \$25,000 with interest at 7% from its senior vice-president, chief administrative officer. The note is unsecured and matures on March 31, 2018. The principal is convertible at the option of the holder into shares of common stock at \$.10 per share.

Note 9. Stock Option Plans and Agreements

The Company has approved stock options plans and agreements covering up to an aggregate of 10,840,000 shares of common stock. Such options may be designated at the time of grant as either incentive stock options or nonqualified stock options. Stock based compensation consists of charges for stock option awards to employees, directors and consultants.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for the three months ended March 31, 2015 and 2014:

	2015	2014
Risk-free interest rate	1.78%	.77% - 1.98%
Expected dividend yield	0%	0%
Expected stock price volatility	100%	100%
Expected life of options	5.75 years	3.25 to 5.75 years

The Company recorded expense for options issued to employees and independent service providers of \$14,407 and \$58,805 for the three months ended March 31, 2015 and 2014, respectively.

At March 31, 2015, there was approximately \$64,000 of total unrecognized compensation cost related to non-vested options. That cost is expected to be recognized over a weighted average period of approximately one year. The total fair value of shares that vested during the three months ended March 31, 2015 was approximately \$46,000.

A summary of all stock option activity for the three months ended March 31, 2015 follows:

	Number of Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2014	10,899,500	\$.16		
Options granted	120,000	\$.05		
Options expired	(1,170,833)	\$.16		
Options forfeited	(41,667)	\$.13		
Outstanding at March 31, 2015	9,807,000	\$.16	5.3 years	\$ 0
Vested or expected to vest at March 31, 2015	7,457,000	\$.17	6.0 years	\$ 0
Exercisable at March 31, 2015	6,495,333	\$.18	5.6 years	\$ 0

During the three months ended March 31, 2015, the Company issued to certain of its employees common stock options for an aggregate of 120,000 shares exercisable at \$.05 per share which vest on June 30, 2015.

Note 10. Related Party Accounts Receivable and Accrued Interest Payable

Accounts Receivable – Since 2012, certain officers and directors of the Company have made loans to goSudo, a customer of the Company, and can influence the management of this company. Included in accounts receivable are amounts due from this related party of \$69,228 at March 31, 2015 (\$66,885 - December 31, 2014).

Accrued Interest Payable – Included in accrued interest payable is accrued interest payable to related parties of \$390,634 at March 31, 2015 (\$378,731 - December 31, 2014).

Note 11. Supplemental Cash Flow Information

On February 6, 2015, the Company originated a secured promissory note in the principal amount of \$80,000 in connection with the acquisition of the UberScan software (See Note 7).

Note 12. Subsequent Events

Subsequent to March 31, 2015, the Company issued to an employee common stock options for an aggregate of 30,000 shares exercisable at \$.04 per share of which 10,000 vested on the grant date.

Subsequent to March 31, 2015, the Company and the Seller of the Software, amended the secured promissory note for \$80,000 to extend the maturity date to October 7, 2015.

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

IT Consulting

Edgar Filing: INFINITE GROUP INC - Form 10-Q

Headquartered in Pittsford, New York, we provide IT solutions that are intended to deliver measurable results to small and medium sized businesses (SMBs), government agencies, and large commercial enterprises. We provide:

Cloud computing;

Managed services that include managing leading edge operations and implementing complex programs in advanced server management;

Remote desktop and remote server monitoring and remediation;

Help desk and call center services;

Third party data storage;

Cyber security services; and

Project management.

We provide cloud computing solutions that include public and private cloud architectures along with hybrid scalable cloud hosting, server virtualization and desktop virtualization solutions. In addition, we provide IT solutions that address mobility, and unified communications. Our cyber security practice provides information security services including internal and external security assessments and recommended solutions. We focus on aligning business processes with technology for delivery of solutions meeting our clients' needs and providing expert management services to the lifecycle of technology-based projects.

We provide support to professional services organizations of software companies that need additional skilled resources when implementing solutions. Our technical support personnel maintain leading edge certifications and qualifications in their respective software applications. We intend to use our service track record and experience to our advantage and market our excellent record to other software companies who need our services. We plan to expand our sales with our existing clients by expanding within those organizations.

Results of Operations

Comparison of the Three Months Ended March 31, 2015 and 2014

The following table compares our statements of operations data for the three months ended March 31, 2015 and 2014. The trends suggested by this table are not indicative of future operating results.

	Three Months Ended March 31,						2015 vs. 2014	
	2015	As a % of Sales		2014	As a % of Sales		Amount of Change	% Increase (Decrease)
Sales	\$2,169,638	100.0	%	\$2,014,417	100.0	%	\$155,221	7.7
Cost of sales	1,693,226	78.0		1,506,164	74.8		187,062	12.4
Gross profit	476,412	22.0		508,253	25.2		(31,841)	(6.3)
General and administrative	397,591	18.3		325,224	16.1		72,367	22.3
Selling	232,419	10.7		244,018	12.1		(11,599)	(4.8)
Total operating expenses	630,010	29.0		569,242	28.3		60,768	10.7
Operating loss	(153,598)	(7.1)		(60,989)	(3.0)		(92,609)	151.8
Loss on investment	(8,000)	(0.4)		(15,000)	(0.7)		(7,000)	100.0
Interest expense	(63,119)	(2.9)		(83,286)	(4.1)		(20,167)	(24.2)
Net loss	\$(224,717)	(10.4)	%	\$(159,275)	(7.9)	%	\$(65,442)	41.1
Net loss per share - basic and diluted	\$(.01)			\$(.01)				

Sales

Sales for the three months ended March 31, 2015 were \$2,169,638 as compared to sales for the three months ended March 31, 2014 of \$2,014,417, an increase of \$155,221 or 7.7%. Sales of virtualization projects increased during the three months ended March 31, 2015 as compared to 2014. However, we realized sales decreases of approximately \$75,000 during the three months ended March 31, 2015 due to a lower rate when our principal contract with Hewlett-Packard Company was renewed for its twelfth consecutive year. We expect this rate reduction to continue through at least the next contract renewal date, October 1, 2015. During March and April 2015, we began to close new contracts and expect future sales from security assessments and related projects using proprietary software, UberScan, which we purchased in February 2015.

One of our priorities is to increase sales. Accordingly, we continue to hire additional sales personnel in an effort to increase commercial and U.S. Government agency sales. In March and April 2015, we hired employees to focus on increasing our cyber security assessment and virtualization project sales. Due to the lengthy lead times typically needed to generate new sales in these areas, we do not expect to realize a return from the addition of the new sales personnel for one or more quarters. As a result, we may experience net losses from these investments in personnel until sufficient sales are generated. We expect to fund the cost for the new sales personnel from our operating cash flows and incremental borrowings, as needed.

We have several contract vehicles that enable us to deliver a broad range of our services and solutions to the U.S. Government and commercial clients. We have formed alliances with large systems integrators, who are mandated by federal policy to direct defined percentages of their work to companies like ours which are small business subcontractors. We have completed proposals with major prime contractors to the U.S. Government.

Cost of Sales and Gross Profit

Cost of sales represents the cost of employee services related to our IT Services Group. Cost of sales for the three months ended March 31, 2015 was 1,693,226 or 78.0% of sales as compared to \$1,506,164 or 74.8% for the three months ended March 31, 2014. Gross profit was \$476,412 or 22.0% of sales for the three months ended March 31, 2015 compared to \$508,253 or 25.2% of sales for the three months ended March 31, 2014. Gross profit was affected by sales decreases of approximately \$75,000 or 3.5% during the three months ended March 31, 2015 due to a lower rate when our principal contract with Hewlett-Packard Company was renewed for its twelfth consecutive year. We experienced an increase in utilization of our IT engineers during the three months ended March 31, 2015 as compared to 2014 which improved our gross profit margin. This increased utilization helped offset the decrease in gross profit noted above.

General and Administrative Expenses

General and administrative expenses include corporate overhead such as compensation and benefits for executive, administrative and finance personnel, rent, insurance, professional fees, travel, and office expenses. General and administrative expenses for the three months ended March 31, 2015 increased by \$72,367 or 22.3% to \$397,591 as compared to \$325,224 for the same period in 2014. The increase in general and administrative expenses in 2015 was principally a result of increases in professional fees of approximately \$40,000 in connection with the purchase of UberScan software and public reporting requirements and the addition of an executive officer in October 2014 who is responsible for working with other key executives to develop and implement our strategic direction and marketing plans and improve performance through collaboration between sales and service delivery functions. In 2015, we realized expense reductions of approximately \$28,500 for stock options expense and approximately \$19,800 for shareholder investor relations and communications expense.

Selling Expenses

For the three months ended March 31, 2015, we incurred selling expenses of \$232,419 associated with the development of our IT Services Group business compared to \$244,018 for the three months ended March 31, 2014, a decrease of \$11,599 or 4.8%. This decrease is due to various minor changes in expense items from period to period and a decrease in stock options expense of approximately \$15,570 in 2015. We continue to hire additional sales personnel in an effort to increase commercial and U.S. Government agency sales, however, we eliminated certain sales positions in 2014, which offset a portion of the expenses associated with these new personnel. In March and April 2015, we hired employees to focus on increasing our cyber security assessment and virtualization project sales.

Operating Loss

For the three months ended March 31, 2015, we had an operating loss of \$153,598 compared to an operating loss of \$60,989 for the three months ended March 31, 2014. The \$92,609 decrease is attributable to a decrease in gross profit of \$31,841 and an increase in total operating expenses of \$60,768 for the three months ended March 31, 2015 as compared to 2014.

Loss on Investment

During 2014 and 2013, we purchased 300,000 shares of Series A Convertible Preferred Stock of Sudo.me Corporation (goSudo) for \$300,000 pursuant to the terms and conditions of a preferred stock purchase agreement. As a result, at March 31, 2015, we own approximately 9.4% of the total outstanding shares of goSudo. goSudo's web site is <http://goSudo.com> (the information contained in goSudo's website shall not be considered a part of this Report). Our management exercises significant influence over the operating and financial policies of goSudo. The investment was

written down by \$8,000 during the three months ended March 31, 2015 (\$15,000 - 2014) to \$101,000 (\$109,000 - December 31, 2014) based on our interest in the net loss of goSudo for the same period.

Interest Expense

Total interest expense was \$63,119 for the three months ended March 31, 2015, a decrease of \$20,167 from \$83,286 for the three months ended March 31, 2014. The decrease principally results from changes in the terms of our line of credit financing agreement which became effective in April 2014 reducing our cost of capital and improved collection rates from our two primary customers.

Net Loss

For the three months ended March 31, 2015, we recorded a net loss of \$224,717 or \$.01 per share compared to \$159,275 or \$.01 per share for the three months ended March 31, 2014.

Liquidity and Capital Resources

At March 31, 2015, we had cash of \$34,632 available for our primary liquidity needs for working capital needs and planned capital asset expenditures. During 2015, we financed our business activities principally through cash flows provided by operations and sales with recourse of our accounts receivable. Our primary source of liquidity is cash provided by collections of accounts receivable and our factoring line of credit. At March 31, 2015, we had approximately \$110,000 of availability under this line.

On December 1, 2014, we entered into an unsecured line of credit financing agreement (the "LOC Agreement") with a member of our board of directors. The LOC Agreement provides for working capital of up to \$400,000 through December 31, 2017. We borrowed \$120,000 during 2015 for working capital. In addition, during the three months ended March 31, 2015, we borrowed \$25,000 from an executive officer. We have available \$81,320 to borrow under the LOC Agreement.

At March 31, 2015, we had a working capital deficit of approximately \$2,067,000 and a current ratio of .18. This increase in the working capital deficit from \$1,032,000 at December 31, 2014 is principally due to the scheduled maturity on January 1, 2016 of notes payable of \$419,300 to related parties and \$325,000 to others which total \$744,300. We also originated a short-term secured promissory note in the principal amount of \$80,000 during the three months ended March 31, 2015 in connection with the purchase of UberScan software that matures, as amended, on October 7, 2015. We plan to renegotiate the terms of the notes payable, seek funds to repay the notes or use a combination of both alternatives. Our objective is to improve our working capital position through profitable operations.

The following table sets forth our cash flow information for the periods presented:

	Three Months Ended	
	March 31,	
	2015	2014
Net cash provided by operating activities	\$40,764	\$9,652
Net cash used by investing activities	(100,000)	(3,634)
Net cash provided (used) by financing activities	86,100	(5,222)
Net increase in cash	\$26,864	\$796

Cash Flows Provided by Operating Activities

Cash provided by operations during the three months ended March 31, 2015 was \$40,764 compared with \$9,652 for the same period in 2014. Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments. We bill our clients weekly or monthly after services are performed, depending on the contract terms. To generate cash provided by operating activities in 2015, our net loss of \$224,717 for 2015 was principally offset by non-cash expenses of \$28,011 and increases in current liabilities of \$242,135.

To generate cash provided by operating activities in 2014, our net loss of \$159,275 for 2014 was principally offset by non-cash expenses of \$80,093 and improved payments of our accounts receivable of \$203,087 which offset our decreases in current liabilities of \$109,997.

We continue to hire additional sales personnel in an effort to increase commercial and U.S. Government agency sales and cyber security assessment and virtualization project sales. Due to the lengthy lead times typically needed to generate new sales in these areas, we do not expect to realize a return from the addition of the new sales personnel for one or more quarters. As a result, we may experience net losses from these investments in personnel until sufficient sales are generated. We expect to fund the cost for the new sales personnel from our operating cash flows and incremental borrowings, as needed.

Cash Flows Used by Investing Activities

Cash used by investing activities was \$100,000 and \$3,634 during the three months ended March 31, 2015 and 2014, respectively. We invested \$100,000 in 2015 to purchase the UberScan software to perform security assessments. In 2014, we incurred capital expenditures for computer hardware and software. We expect to continue to invest in computer hardware and software to update our technology to support the growth of our business. We plan to invest in improvements to the functions and performance of UberScan software.

Cash Flows Provided (Used) by Financing Activities

Cash provided by financing activities was \$86,100 as compared to cash used of \$5,222 for the three months ended March 31, 2015 and 2014, respectively. In 2015, we borrowed \$120,000 for working capital under our LOC agreement and \$25,000 from an executive officer. We made principal payments of \$55,025 to related parties, who are executive officers. During 2014, we made principal payments on other notes payable. We anticipate that we will use \$26,940 during the next twelve months for contractual amounts due to banks, the PBGC and the LOC agreement with a director. We continue to evaluate repayment of other notes payable based on our cash flow.

Credit Resources

We maintain an accounts receivable financing line of credit with an independent financial institution that allows us to sell selected accounts receivable invoices to the financial institution with full recourse against us in the amount of \$2,000,000, including a sublimit for one major client of \$1,500,000. This provides us with the cash needed to finance certain of our on-going costs and expenses. At March 31, 2015, we had financing availability, based on eligible accounts receivable, of approximately \$110,000 under this line. We pay fees based on the length of time that the invoice remains unpaid.

We believe the capital resources available under our factoring line of credit, cash from additional related party loans and cash generated by improving the results of our operations will be sufficient to fund our ongoing operations and to support the internal growth we expect to achieve for at least the next 12 months. However, if we do not continue to improve the results of our operations in future periods, we expect that additional working capital will be required to fund our business. There is no assurance that in the event we need additional funds that adequate additional working capital will be available or, if available, will be offered on acceptable terms.

We anticipate financing growth from acquisitions of other businesses, if any, and our longer-term internal growth through one or more of the following sources: cash from collections of accounts receivable; additional borrowing from related parties; issuance of equity; use of our existing accounts receivable credit facility; or a refinancing of our accounts receivable credit facility.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company we are not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (the “Exchange Act”) Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the “Evaluation Date”). Based upon that evaluation, the chief executive officer and chief financial officer concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

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

On February 12, 2015, we received a loan of \$25,000 from our senior vice-president and chief administrative officer, Andrew Hoyen. The loan pays interest at 7% per annum. The note is unsecured and matures on March 31, 2018. The principal is convertible at the option of the holder into shares of common stock at \$.10 per share. The sale of the convertible note to Mr. Hoyen is exempt from registration under the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereunder, as a transaction by an issuer not involving any public offering.

Item 5. Other Information.

On December 31, 2014, we entered into an amendment to our note payable of \$265,000 with Carle C. Conway that was scheduled to mature on January 1, 2015 to extend the maturity date to January 1, 2018.

On February 6, 2015, we originated a secured promissory note in the principal amount of \$80,000 in connection with the acquisition of the UberScan software. After April 7, 2015, the note accrues interest at 10% per annum. The note was amended to extend the maturity date to October 7, 2015. As security for our obligations under the promissory note, we granted the Seller a security interest in the Software.

On February 12, 2015, we received a loan of \$25,000 from our senior vice-president and chief administrative officer, Andrew Hoyen. The loan pays interest at 7% per annum. The note is unsecured and matures on March 31, 2018. The principal is convertible at the option of the holder into shares of common stock at \$.10 per share. The sale of the convertible note to Mr. Hoyen is exempt from registration under the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereunder, as a transaction by an issuer not involving any public offering.

On March 13, 2015, we agreed upon an amendment to our note payable with the PBGC that defers a principal payment of \$75,000 that was due on March 15, 2015 to September 15, 2018.

Item 6. Exhibits.

Exhibits required to be filed by Item 601 of Regulation S-K.

For the exhibits that are filed herewith or incorporated herein by reference, see the Index to Exhibits located on page 17 of this report. The Index to Exhibits is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date	May 14, 2015	Infinite Group, Inc. (Registrant) /s/ James Villa James Villa Chief Executive Officer (Principal Executive Officer)
------	--------------	--

Date	May 14, 2015	/s/ James Witzel James Witzel Chief Financial Officer (Principal Financial Officer)
------	--------------	--

INDEX TO EXHIBITS

Exhibit No.	Description
10.1	Modification Agreement to Promissory Notes between the Company and Carle C. Conway, dated December 31, 2014 (incorporated by reference to Exhibit 10.37 of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2015 (File No. 0-21816)).
10.2	Software Assets Purchase Agreement between the Company and UberScan, LLC and Christopher B. Karr and Duane Peifer, dated February 6, 2015 (incorporated by reference to Exhibit 10.35 of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2015 (File No. 0-21816)).
10.3	Promissory Note and Security Agreement between the Company and UberScan, LLC, dated February 6, 2015 (incorporated by reference to Exhibit 10.36 of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2015 (File No. 0-21816)).*
10.4	Promissory Note between Andrew Hoyen and the Company, dated February 12, 2015 (incorporated by reference to Exhibit 10.38 of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2015 (File No. 0-21816)).*
10.5	Amendment to Promissory Note between the Company and UberScan, LLC, dated April 6, 2015.*
10.6	Amendment to Promissory Note between the Company and the PBGC, dated March 13, 2015.*
31.1	Chief Executive Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Chief Financial Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Chief Executive Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Chief Financial Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Filed as an exhibit hereto.

