

INFINITE GROUP INC
Form 10-Q
November 14, 2014

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: September 30, 2014

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)

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 filer,

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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	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="checkbox"/>

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 25,961,883 shares of the issuer's common stock, par value \$.001 per share, outstanding as of November 14, 2014.

Infinite Group, Inc.
 Quarterly Report on Form 10-Q
 For the Period Ended September 30, 2014

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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 continued 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

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash	\$ 15,707	\$ 16,947
Accounts receivable, net of allowances of \$70,000	529,545	592,045
Prepaid expenses and other current assets	16,321	22,512
Total current assets	561,573	631,504
Property and equipment, net	55,633	46,120
Investment in equity securities	204,000	247,000
Deposits and other assets	2,318	2,318
Total assets	\$ 823,524	\$ 926,942
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	\$ 376,190	\$ 316,873
Accrued payroll	308,559	364,120
Accrued interest payable	493,620	451,160
Accrued retirement	206,385	200,316
Accrued expenses - other	13,783	41,933
Current maturities of notes payable - banks and other	91,780	21,186
Notes payable	295,000	30,000
Notes payable - related parties	142,000	142,000
Total current liabilities	1,927,317	1,567,588
Long-term obligations:		
Notes payable:		
Banks and other	1,171,999	1,523,406
Related parties	501,324	501,324
Total liabilities	3,600,640	3,592,318
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, \$.001 par value, 60,000,000 shares authorized;		

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25,961,883 shares issued and outstanding	25,961	25,961
Additional paid - in capital	30,345,328	30,259,102
Accumulated deficit	(33,148,405)	(32,950,439)
Total stockholders' deficiency	(2,777,116)	(2,665,376)
Total liabilities and stockholders' deficiency	\$ 823,524	\$ 926,942

See notes to unaudited financial statements.

INFINITE GROUP, INC.

Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales	\$2,313,235	\$2,193,875	\$6,455,223	6,444,578
Cost of sales	1,611,279	1,631,818	4,744,935	4,733,619
Gross profit	701,956	562,057	1,710,288	1,710,959
Costs and expenses:				
General and administrative	294,155	274,767	932,057	740,450
Selling	225,324	196,288	705,193	683,534
Total costs and expenses	519,479	471,055	1,637,250	1,423,984
Operating income	182,477	91,002	73,038	286,975
Loss on equity investment	(17,000)	(8,500)	(53,000)	(13,500)
Interest expense:				
Related parties	(11,773)	(11,773)	(34,936)	(35,043)
Other	(47,834)	(66,921)	(183,068)	(198,580)
Total interest expense	(59,607)	(78,694)	(218,004)	(233,623)
Net (loss) income	\$ 105,870	\$ 3,808	\$(197,966)	\$ 39,852
Net (loss) income per share – basic and diluted	\$.00	\$.00	\$(.01)	\$.00
Weighted average shares outstanding:				
Basic	25,961,883	25,961,883	25,961,883	25,961,883
Diluted	25,972,994	26,743,782	25,961,883	26,962,379

See notes to unaudited financial statements.

INFINITE GROUP, INC.

Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Operating activities:		
Net (loss) income	\$(197,966)	\$39,852
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock based compensation	86,226	76,742
Depreciation	19,408	14,738
Loss on equity investment	53,000	13,500
Decrease (increase) in assets:		
Accounts receivable	62,500	(77,384)
Other assets	6,191	9,542
Increase (decrease) in liabilities:		
Accounts payable	59,317	75,359
Accrued expenses	(41,251)	(76,678)
Accrued retirement	6,069	(23,981)
Net cash provided by operating activities	53,494	51,690
Investing activities:		
Purchases of property and equipment	(28,921)	(20,964)
Investment in equity securities	(10,000)	(60,833)
Net cash used by investing activities	(38,921)	(81,797)
Financing activities:		
Repayments of notes payable - banks and other	(15,813)	(17,708)
Repayment of note payable - related parties	0	(7,000)
Net cash used by financing activities	(15,813)	(24,708)
Net decrease in cash	(1,240)	(54,815)
Cash - beginning of period	16,947	56,158
Cash - end of period	\$15,707	\$1,343
Supplemental disclosure:		
Cash paid for:		
Interest	\$182,950	\$203,189
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, 2013 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, 2013 filed with the U.S. Securities and Exchange Commission (SEC). Results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2014.

Note 2. 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, 2013 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 sheet 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.

New 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. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its unaudited financial statements and related disclosures.

Note 3. Investment in Equity Securities

During 2014 and 2013, the Company purchased 280,000 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 \$280,000 pursuant to the terms and conditions of a preferred stock purchase agreement. goSudo is a customer of the Company. As a result, at September 30, 2014, the Company owns approximately 8.8% of the total outstanding shares of goSudo. The initial investment in May 2013 of \$100,000 included settlement of accounts receivable of \$84,167 which is considered a non-cash investing activity of \$84,167.

The investment is accounted for using the equity method since Company management exercises significant influence over the operating and financial policies of goSudo. Since 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 is one of three members of the board of directors of goSudo and during his employment, which extended through June 30, 2014, was active in managing goSudo's business. One Company employee is an officer of goSudo. As a result of the foregoing, the Company is deemed to have significant influence upon goSudo's policy and operating decisions. The investment was written down by \$53,000 during the nine months ended September 30, 2014 and \$23,000 through December 31, 2013 based on the Company's interest in the net loss of goSudo from May 7, 2013 (date of initial investment). The investment has a carrying value of \$204,000 at September 30, 2014 (\$247,000 – December 31, 2013).

Unaudited financial information for goSudo as of and for the nine months ended September 30, 2014 reflects total assets of \$14,891, total liabilities of \$601,462, and net loss of \$605,204. goSudo is a development stage enterprise and has had no revenues since inception.

Note 4. Stock Option Plans and Agreements

The Company has approved stock options plans and agreements covering up to an aggregate of 12,012,833 shares of common stock. Plan 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 nine months ended September 30, 2014 and 2013.

	2014	2013
Risk-free interest rate	.77% - 1.98%	.34% - .215
Expected dividend yield	0%	0%
Expected stock price volatility	100%	75%
Expected life of options	3.25 - 5.75 years	3.25 - 5.75 years

The Company recorded expense for options issued to employees and independent service providers of \$11,331 and \$25,826 for the three months ended September 30, 2014 and 2013, respectively, and \$86,226 and \$76,742 for the nine months ended September 30, 2014 and 2013, respectively.

At September 30, 2014, there was approximately \$94,000 of unrecognized compensation cost related to non-vested options. This cost is expected to be recognized over a weighted average period of approximately two years. The total fair value of shares that vested during the nine months ended September 30, 2014 was approximately \$72,000. The weighted average fair value of options granted during the nine months ended September 30, 2014 was approximately \$.08 (\$.09 during the nine months ended September 30, 2013). No options were exercised during the nine months ended September 30, 2014 and 2013.

A summary of all stock option activity for the nine months ended September 30, 2014 follows.

	Number of Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	9,220,500	\$.18		
Options granted	1,830,000	\$.12		
Options expired	(342,667)	\$.14		
Options forfeited	(833,333)	\$.13		
Outstanding at September 30, 2014	9,874,500	\$.18	4.9 years	\$ 0
Exercisable at September 30, 2014	6,547,000	\$.20	4.5 years	\$ 0

During the nine months ended September 30, 2014, the Company issued 800,000 common stock options to an employee at an exercise price of \$.13 per share. At issuance, 200,000 options immediately vested. The balance of the options vest based on meeting specific sales performance criteria. Additional expense will be recorded when it is probable the vesting criteria will be met. In addition, the Company issued (i) 920,000 common stock options to employees at an exercise price of \$.115 per share of which 306,667 vested upon grant; (ii) 100,000 common stock

options to an employee at an exercise price of \$.04 of which 100,000 vested upon grant with the balances vesting over two years and (iii) 10,000 common stock options to an employee at an exercise price of \$.065 which vests over three years.

Note 5. 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. Through April 18, 2014, the retained amount was equal to 20% of the total accounts receivable invoice sold to the Purchaser. The fee for the first 30 days was 1% and additional fees are charged against the average daily balance of net outstanding funds at the prime rate, which was 3.25% per annum in 2014 and 2013. On April 18, 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. 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 September 30, 2014) against the average daily outstanding balance of funds advanced.

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 nine months ended September 30, 2014, the Company sold approximately \$6,142,000 (\$6,016,000 – September 30, 2013) of its accounts receivable to the Purchaser. As of September 30, 2014, approximately \$945,000 (\$799,381 – December 31, 2013) of these receivables remained outstanding. Additionally, as of September 30, 2014, the Company had approximately \$232,000 available under the financing line with the financial institution (\$220,000 - December 31, 2013). After deducting estimated fees and advances from the Purchaser, the net receivable from the Purchaser amounted to \$161,603 at September 30, 2014 (\$187,258 – December 31, 2013) and is included in accounts receivable in the accompanying balance sheet.

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 \$118,800 for the nine months ended September 30, 2014 (\$133,700 – September 30, 2013). These financing line fees are classified on the statements of operations as interest expense.

Note 6. 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 convertible notes 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 net (loss) income per share.

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Numerator for basic net (loss) income per share:				
Net (loss) income	\$105,870	\$3,808	\$(197,966)	\$39,852
Denominator for basic net (loss) income per share:				
Weighted average common shares outstanding	25,961,883	25,961,883	25,961,883	25,961,883
Basic net (loss) income per share	\$.00	\$.00	\$(.01)	\$.00
Numerator for diluted net (loss) income per share:				
Net (loss) income	\$105,870	\$3,808	\$(197,966)	\$39,852
Denominator for diluted net (loss) income per share:				
Weighted average common shares outstanding	25,961,883	25,961,883	25,961,883	25,961,883
Effect of dilutive securities - common stock options	11,111	781,899	0	1,000,496
Shares used in computing diluted net (loss) income per share	25,972,994	26,743,782	25,961,883	26,962,379
Diluted net (loss) income per share	\$.00	\$.00	\$(.01)	\$.00

Anti-dilutive shares excluded from net (loss) income per share calculation	30,602,049	26,681,651	30,702,049	24,631,651
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Certain common shares issuable under stock options and convertible notes payable have been omitted from the diluted net (loss) income 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 7. Related Party Accounts Receivable and Accrued Interest Payable

Accrued Interest Payable – Included in accrued interest payable is accrued interest payable to related parties of \$374,540 at September 30, 2014 (\$358,698 - December 31, 2013).

Accounts Receivable – Since 2012, certain officers or 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 \$50,770 at September 30, 2014 (\$269 - December 31, 2013).

Note 8. Management Plans – Capital Resources

The Company reported operating income of \$73,038 and \$286,975 and net (loss) income of \$(197,966) and \$39,852 for the nine months ended September 30, 2014 and 2013, respectively.

The Company's primary source of liquidity is cash provided by collections of accounts receivable and its factoring line of credit. At September 30, 2014, the Company had approximately \$232,000 of availability under this line. During the nine months ended September 30, 2014, the Company financed its business activities through sales with recourse of accounts receivable.

At September 30, 2014, we had a working capital deficit of approximately \$1,366,000 and a current ratio of .29. This increase in the working capital deficit from \$936,000 at December 31, 2013 is principally due to the scheduled maturity of a note payable of \$265,000 on January 1, 2015 and a balloon payment of \$78,000 due to the Pension Benefit Guaranty Corporation (PBGC) on March 15, 2015. We plan to renegotiate the terms of the \$265,000 note payable or seek funds to repay this note. We plan to seek funds, including additional loans from related parties, to pay the balloon payment to the PBGC if we do not generate sufficient cash flow from operations.

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 9. Subsequent Event

Subsequent to September 30, 2014, the Company issued 500,000 common stock options to an employee a exercisable at \$.04 per share of which 200,000 vested immediately on the date of grant. The balance of 300,000 common stock options would vest based on the employee meeting specific sales performance targets.

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

IT Consulting

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 and providing 24/7 security software solutions to commercial customers;

Remote desktop and remote server monitoring and remediation;

Help desk and call center services;

Third party data storage;

Backup and disaster recovery solutions;

Information 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 Three and Nine Month Periods ended September 30, 2014 and 2013

The following tables compare our statements of operations data for the three and nine months ended September 30, 2014 and 2013. The trends suggested by this table are not indicative of future operating results.

Three Months Ended September 30,

	2014	As a % of Sales	2013	As a % of Sales	2014 vs. 2013	
					Amount of Change	% Increase (Decrease)
Sales	\$2,313,235	100.0	\$2,193,875	100.0	\$119,360	5.4
Cost of sales	1,611,279	69.7	1,631,818	74.4	(20,539)	(1.3)
Gross profit	701,956	30.3	562,057	25.6	139,899	24.9
General and administrative	294,155	12.7	274,767	12.5	19,388	7.1
Selling	225,324	9.7	196,288	8.9	29,036	14.8
Total costs and expenses	519,479	22.5	471,055	21.5	48,424	10.3
Operating income	182,477	7.9	91,002	4.1	91,475	100.5

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Loss on equity investment	(17,000)	(.7)	(8,500)	(.4)	8,500	100.0
Interest expense	(59,607)	(2.6)	(78,694)	(3.6)	(19,087)	(24.3)
Net income	\$105,870	4.6 %	\$3,808	.2 %	\$102,062	2,680.2 %

Net income per share - basic and diluted	\$.00	\$.00	\$.00
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Nine Months Ended September 30,

	2014 vs. 2013					
	2014	As a % of Sales	2013	As a % of Sales	Amount of Change	% Increase (Decrease)
Sales	\$ 6,455,223	100.0 %	\$ 6,444,578	100.0 %	\$ 10,645	.2 %
Cost of sales	4,744,935	73.5	4,733,619	73.5	11,316	.2
Gross profit	1,710,288	26.5	1,710,959	26.5	(671)	(.0)
General and administrative	932,057	14.4	740,450	11.5	191,607	25.9
Selling	705,193	10.9	683,534	10.6	21,659	3.2
Total costs and expenses	1,637,250	25.4	1,423,984	22.1	213,266	15.0
Operating income	73,038	1.1	286,975	4.5	(213,937)	(74.5)
Loss on equity investment	(53,000)	(.8)	(13,500)	(.2)	39,500	292.6
Interest expense	(218,004)	(3.4)	(233,623)	(3.6)	(15,619)	(6.7)
Net (loss) income	\$ (197,966)	(3.1) %	\$ 39,852	.6 %	\$ (237,818)	(596.8) %
Net (loss) income per share - basic and diluted	\$ (.01)	\$.00	\$ (.01)			

Sales

Sales for the nine months ended September 30, 2014 were \$6,455,223 an increase of \$10,645 or .2% as compared to sales for the nine months ended September 30, 2013 of \$6,444,578. Sales for the three months ended September 30, 2014 were \$2,313,235, an increase of \$119,360 or 5.4% as compared to sales for the three months ended September 30, 2013 of \$2,193,875. Sales of virtualization projects improved starting in the second quarter of 2013 but slowed in the first quarter of 2014 in comparison to the virtualization project sales for each calendar quarter during the nine months ended December 31, 2013. We believe that the decrease during the first quarter of 2014 was mainly attributable to a temporary reduction in the demand for virtualization projects. Sales also declined in the first quarter of 2014 as a long-term commercial project neared completion. Beginning in March 2014 and extending through September 30, 2014, we began to service new virtualization contract customers which attributed to the increase in sales during the three and nine months ended September 30, 2014. We also expect future sales from security assessments and related projects, which originated from sales programs that we established in the fourth quarter of 2013.

One of our priorities is to increase sales. Accordingly, beginning in December 2013, we hired several additional sales personnel in an effort to increase commercial and U.S. Government agency 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 multiple 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.

Sales improved from \$2,014,417 for the three months ended March 31, 2014 to \$ 2,127,571 for the three months ended June 30, 2014 to \$2,313,235 for the three months ended September 30, 2014. We believe that this is an indication that our sales efforts are beginning to produce results.

We have several contract vehicles that enable us to deliver a broad range of our services and solutions to the U.S. Government. In September 2013, the Department of Homeland Security Eagle II (DHS) awarded contracts to prime contractors. We are a subcontractor and teaming member with certain of these prime contractors and accordingly, we believe that we will have new opportunities to generate sales to DHS. The acquisition of these contract vehicles allows us additional opportunities to bid on new projects, although there can be no assurance that we will be successful in receiving such contracts. While we believe we have opportunities for sales growth with government and commercial clients, the lengthy procurement processes may result in future operating losses unless sales increase to support our infrastructure. We understand that the U.S. Government has expressed its intention to reduce its budgets related to technical services contracts in the coming years, which may impact our ability to increase our sales to certain U.S. Government agencies.

Cost of Services and Gross Profit

Cost of services represents the cost of employee services and are related to our sales. Cost of services for the nine months ended September 30, 2014 was \$4,744,935 or 73.5% of sales as compared to \$4,733,619 or 73.5% of sales for the nine months ended September 30, 2013. Gross profit was relatively unchanged at \$1,710,288 or 26.5% of sales for the nine months ended September 30, 2014 compared to \$1,710,959 or 26.5% of sales for the nine months ended September 30, 2013.

Cost of services for the three months ended September 30, 2014 was \$1,611,279 or 69.7% of sales as compared to \$1,631,818 or 74.4% of sales for the three months ended September 30, 2013. Gross profit was \$701,956 or 30.3% of sales for the three months ended September 30, 2014 compared to \$562,057 or 25.6% of sales for the three months ended September 30, 2013.

The increase in gross profit for the three months ended September 30, 2014 as compared to 2013 was primarily attributable to improved utilization of our virtualization engineers. The improved gross profit of \$139,899 for the three months ended September 30, 2014 offset weaker gross profit earned through June 30, 2014 such that our results for the nine months ended September 30, 2014 were comparable to the results for the nine months ended September 30, 2013.

General and Administrative Expenses

General and administrative expenses include corporate overhead such as compensation and benefits for administrative and finance personnel, rent, insurance, professional fees, travel, and office expenses. General and administrative expenses for the nine months ended September 30, 2014 increased by \$191,607 or 25.9% from \$740,450 for the nine months ended September 30, 2013 to \$932,057 for the nine months ended September 30, 2014. As a percentage of sales, general and administrative expenses were 14.4% for the nine months ended September 30, 2014 and 11.5% for the nine months ended September 30, 2013.

General and administrative expenses for the three months ended September 30, 2014 were \$294,155 which was an increase of \$19,388 or 7.1% as compared to \$274,767 for the three months ended September 30, 2013. As a percentage of sales, general and administrative expense was 12.7% for the three months ended September 30, 2014 and 12.5% for the three months ended September 30, 2013.

The increase of \$193,607 in general and administrative expenses for the nine months ended September 30, 2014 was principally a result of an increase of \$38,527 in stock options expense from grants made in 2014, increases in professional fees and expenses of approximately \$68,000 associated with implementing a new shareholder investor relations and communications program, and the addition of an employee to manage the planned expansion of our Commercial Division within the small and medium sized businesses (SMB) space.

Selling Expenses

For the nine months ended September 30, 2014, we incurred selling expenses of \$705,193 compared to \$683,534 for the nine months ended September 30, 2013, an increase of \$21,659 or 3.2%. For the three months ended September 30, 2014, we incurred selling expenses of \$225,324 as compared to \$196,288 for the three months ended September 30, 2013, an increase of \$29,036 or 14.8%.

For the nine months ended September 30, 2014, the increase is due to various minor changes in expense items from period to period offset by a decrease in stock options expense of \$20,454. During December 2013 and January 2014, we hired several additional sales personnel in an effort to increase commercial and U.S. Government agency sales. However, we eliminated certain sales positions in the third and fourth quarters of 2013, which offset a substantial portion of the expenses associated with the new personnel.

Operating Income

For the nine months ended September 30, 2014 our operating income was \$73,038 compared to operating income of \$286,975 for the nine months ended September 30, 2013, a decrease of \$213,937. The decrease is principally attributable to an increase in our general and administrative expenses of \$191,607 and our selling expenses of \$21,659 during the nine months ended September 30, 2014.

For the three months ended September 30, 2014 our operating income was \$182,477 compared to operating income of \$91,002 for the three months ended September 30, 2013, an increase of \$91,475. The increase is attributable to an increase in gross profit of \$139,899 offset by an increase in our general and administrative expenses of \$19,388 and our selling expenses of \$29,036 during the three months ended September 30, 2014.

Loss on Equity Investment

During 2013 and 2014, we acquired 280,000 shares of Series A Convertible Preferred Stock of Sudo.me Corporation (goSudo) for \$280,000 pursuant to the terms and conditions of a preferred stock purchase agreement. As a result, at September 30, 2014, we own approximately 8.8% of the total outstanding shares of goSudo. goSudo's web site is <http://mysudo.me> (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 \$53,000 and \$13,500 during the nine months ended September 30, 2014 and 2013, respectively, based on our interest in the net loss of goSudo for the same period. For the three months ended September 30, 2014 and 2013, the investment was written down by \$17,000 and \$8,500, respectively. The investment has a carrying value of \$204,000 at September 30, 2014 (\$247,000 – December 31, 2013).

Interest Expense

Interest expense includes interest on indebtedness and fees for financing accounts receivable invoices. Interest expense was \$218,004 for the nine months ended September 30, 2014, a decrease of \$15,609 from interest expense of \$233,623 for the nine months ended September 30, 2013. Interest expense was \$59,607 for the three months ended September 30, 2014, a decrease of \$19,087 from interest expense of \$78,694 for the three months ended September 30, 2013. The decreases principally result from changes in the terms of our line of credit financing agreement which became effective in April 2014.

Net (Loss) Income

For the nine months ended September 30, 2014, we recorded a net loss of \$197,966 or \$.01 per share compared to a net income of \$39,852 or \$.00 per share for the nine months ended September 30, 2013. For the three months ended September 30, 2014, we recorded net income of \$105,870 or \$.00 per share compared to net income of \$3,808 or \$.00 per share for the three months ended September 30, 2013.

Other Trends

During the past several years, the United States and worldwide capital and credit markets experienced significant price volatility and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the capital and credit markets may negatively impact our business, including our ability to access additional financing at reasonable terms or to refinance our credit at improved terms, which may negatively affect our ability to make future acquisitions or expansions of our business. These events also may make it more difficult or costly for us to raise capital. The disruptions in the financial markets may have a material adverse effect on the market value of our common stock and other adverse effects on our business.

Liquidity and Capital Resources

At September 30, 2014, we had cash of \$15,707 available for our primary liquidity needs for working capital needs and planned capital asset expenditures. Our primary source of liquidity is cash provided by collections of accounts receivable and our factoring line of credit. At September 30, 2014, we had approximately \$232,000 of availability under this line.

At September 30, 2014, we had a working capital deficit of approximately \$1,366,000 and a current ratio of .29. This increase in the working capital deficit from \$936,000 at December 31, 2013 is principally due to the scheduled maturity of a note payable of \$265,000 on January 1, 2015 and a balloon payment of \$78,000 due to the Pension Benefit Guaranty Corporation (PBGC) on March 15, 2015. We plan to renegotiate the terms of the \$265,000 note payable or seek funds to repay this note. We plan to seek funds, including additional loans from related parties, to pay the balloon payment to the PBGC if we do not generate sufficient cash flow from operations. Our objective is to improve our working capital position through profitable operations. During 2014, we financed our business activities principally through cash flows provided by operations and sales with recourse of our accounts receivable.

The following table sets forth our sources and uses of cash for the periods presented:

	Nine Months Ended September 30,	
	2014	2013
Net cash provided by operating activities	\$53,494	\$51,690
Net cash used by investing activities	(38,921)	(81,797)
Net cash used by financing activities	(15,813)	(24,708)
Net decrease in cash	\$(1,240)	\$(54,815)

Cash Flows from Operating Activities

During the nine months ended September 30, 2014, cash provided by operations was \$53,494 compared with \$51,690 for the nine months ended September 30, 2013. For the nine months ended September 30, 2014, our net loss of \$197,966, non-cash expenses of \$158,634, a decrease in accounts receivable of \$62,500 and an increase in current liabilities of \$24,135 in aggregate resulted in cash flows from our operating activities. For the nine months ended September 30, 2013, our net income of \$39,852 and non-cash expenses of \$104,980 were offset principally by an increase in accounts receivable of \$77,384, a decrease in accrued expenses of \$76,678 and a reduction in accrued retirement and pension obligation of \$23,981 in aggregate resulted in cash flows from our operating activities.

Beginning in December 2013, we hired several additional sales personnel in an effort to increase commercial and U.S. Government agency 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.

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 by using cash generated by operations and financing our accounts receivable. We bill our clients weekly or monthly after services are performed, depending on the contract terms.

Cash Flows from Investing Activities

Cash used by investing activities for the nine months ended September 30, 2014 was \$38,921 compared with \$81,797 for the nine months ended September 30, 2013. Cash used in investing activities included capital expenditures for computer hardware and software of \$28,921 in 2014 and \$20,964 in 2013. In 2014, we relocated our offices to more efficient space in the same office park and incurred costs of \$8,650 for cabling our computer networks and work stations for our newly hired sales personnel. During 2014 and 2013, we made equity investments in goSudo of \$10,000 and \$145,000 (of which \$84,167 was classified as non-cash and \$60,833 as cash transactions), respectively.

Cash Flows from Financing Activities

For the nine months ended September 30, 2014, cash used by financing activities was \$15,813 for principal payments on notes payable-banks and other. For the nine months ended September 30, 2013, cash used by financing activities was \$24,708, of which \$17,708 was for principal payments on notes payable-banks and other and \$7,000 on notes payable to related parties. We anticipate that we will use approximately \$91,800 during the next twelve months for amounts due to banks and the PBGC. 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 from 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 costs and expenses. At September 30, 2014, we had financing availability, based on eligible accounts receivable, of approximately \$232,000 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 and assets, 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 or other parties; issuance of equity; use of our existing accounts receivable credit facility; or a refinancing of our accounts receivable credit facility.

In April 2014, we completed a revised financing agreement with our primary financial institution that provides for a decrease in our financing fees and costs in future periods. In addition, the retained amount was revised from 20% to 15% of the total accounts receivable invoice sold to the Purchaser.

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 October 1, 2014, in connection with his employment with us, we granted a stock option for 500,000 shares of our common stock to Andrew Hoyen, senior vice president - chief administrative officer, at an exercise price of \$.04 per share. The term of the option is five years, subject to earlier termination as provided in the stock option agreement. Options covering 200,000 of the shares vested immediately upon grant, and the remaining shares vest based on performance criteria set forth in the agreement. The grant of such stock option 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 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	November 14, 2014	Infinite Group, Inc. (Registrant) /s/ James Villa James Villa Chief Executive Officer (Principal Executive Officer)
Date	November 14, 2014	/s/ James Witzel James Witzel Chief Financial Officer

INDEX TO EXHIBITS

Exhibit No. Description

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.