

INFINITE GROUP INC
Form 10-K
April 14, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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
(State or other jurisdiction of incorporation or
organization)

52-1490422
(I.R.S. Employer
Identification No.)

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

Registrant's telephone number, including area code (585) 385-0610

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock
Par value \$.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Edgar Filing: INFINITE GROUP INC - Form 10-K

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

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 Act). Yes No

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant (based upon the closing price on the Over the Counter Bulletin Board of \$.0999 on June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$950,000.

As of April 14, 2016, 29,061,883 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

INFINITE GROUP, INC.
Form 10-K
TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	3
Item 1A. Risk Factors	7
Item 1B. Unresolved Staff Comments	17
Item 2. Properties	17
Item 3. Legal Proceedings	18
Item 4. Mine Safety Disclosure	18
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6. Selected Financial Data	18
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	28
Item 8. Financial Statements and Supplementary Data	28
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	28
Item 9A. Controls and Procedures	28
Item 9B. Other Information	29
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	29
Item 11. Executive Compensation	31
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	32
Item 13. Certain Relationships and Related Transactions, and Director Independence	35
Item 14. Principal Accountant Fees and Services	36
PART IV	
Item 15. Exhibits and Financial Statement Schedules	37

FORWARD LOOKING STATEMENT INFORMATION

Certain statements made in this Annual Report on Form 10-K are “forward-looking statements” regarding the plans and objectives of management for future operations. 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 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 particularly in view of the current state of our operations, the inclusion of such information should not be regarded as a statement by us or any other person that our objectives and plans will be achieved. Factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, the factors set forth herein under the headings “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

Item 1. Business

Business Overview

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;

Third party software licenses for our SMB partners; and

Project management.

We derived approximately 84% of our sales in 2015 and 80% in 2014 from federal, state and local government contracts as either a prime contractor or a subcontractor.

During 2015, we derived approximately 60% of our sales from one client, Hewlett-Packard Enterprise, including sales under subcontracts for services to several of its end clients including a large enterprise Fortune 100 company and a major establishment of the U.S. Government (the “U.S. Government Entity”) for which we manage one of the nation’s largest Microsoft Windows environments. We have been providing this service to the U.S. Government Entity under a long-standing subcontract, which has been renewed annually since 2004. Our team of server experts supports approximately 3,000 servers and 250,000 client stations from facilities in Maryland and Colorado. Operating 24 hours per day and seven days per week, we consistently meet or exceed the requirements of our service level agreements. We refer to this as our Advanced Server Management (ASM) team.

We provide support to professional service organizations of software companies and commercial entities that need additional skilled resources when implementing solutions. We provide cloud computing solutions that include public and private cloud architectures along with hybrid scalable cloud hosting, server virtualization and desktop virtualization solutions. Our technical support personnel maintain leading edge certifications and qualifications in the respective software applications. During 2015, we provided professional services to these clients from whom we derived approximately 26% of our sales. Sales to our principal client, VMware, Inc., consisted of sales under subcontracts for services to their end clients of which approximately 70% are U.S. Government agencies and 30% are commercial entities. Our experience with cloud and virtualization computing related software has placed us in a position to take advantage of a growing trend towards Managed IT Services, particularly in the SMB space. We believe that the cloud and virtualization experience that we gained from working with large institutions and government agencies differentiates us from our competition, particularly within the SMB space. Accordingly, increasing our revenues from direct sales to SMBs is one of our priorities.

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. For example, during 2014, we managed a bar code system implementation project for a manufacturing company that integrated production, inventory control and product delivery. This required developing a hardware solution, modifying software code to integrate information reporting and to interface delivery with customer systems. We also act as IT Director overseeing all aspects of IT on a daily basis including new systems development and implementation.

During 2015, we continued to provide expert management services to customers in a number of sectors including manufacturing. We leveraged existing bar-code technology to improve plant productivity by eliminating repetitious, manual operations. Expansion of this technology throughout the year continued to reduce errors while improving production operations and inventory control. By partnering with several business units, we introduced methods that streamlined processes and delivered key, automated reports which improved forecasting while reducing manual effort, all resulting in increased efficiency. Strategic deployment of technology-based solutions within the customer enterprise has positioned our customer for continued growth with a positive impact to their bottom line.

During 2014, we performed system characterizations and internal and external vulnerability network scans using third-party proprietary software known as ÜberScan. In February 2015, we purchased all rights to the software from ÜberScan, LLC and hired a Director of CyberSecurity who has expertise in designing, developing, marketing, and selling network security assessment services using the ÜberScan software. We increased our cybersecurity sales using our proprietary ÜberScan software by selling cybersecurity services directly to end customers. We provide technical and executive summary reports of ongoing risks, identify and prioritize security vulnerabilities and communicate remediation recommendations to end customers. During 2015, we invested in software development and upgraded and added to the feature sets in ÜberScan software to improve its current and future marketability. We also created a new cybersecurity product, ÜberGuard, that we began to market in late 2015. During 2016, we have continued to add features and created a new version. We are now marketing ÜberGuard as a product that assesses vulnerabilities in a computer network using scanning technology to capture a comprehensive view of the security exposure of a network and infrastructure. The system initiates and runs custom internal and external vulnerability scans, generates reports, and manages remediation from one interface. It also centralizes, creates and updates a user's cybersecurity policies. We market ÜberGuard with an annual license fee.

Our professionals are located at our headquarters in Pittsford, New York and in Colorado, Maryland, North Carolina, South Carolina, and Virginia. We are able to provide onsite service to most locations around the world including military bases.

As of December 31, 2015, we had 69 full-time employees and information technology independent contractors. Approximately 15% of our employees hold U.S. Government security clearances. We possess certifications with our business and technology partners and our personnel maintain numerous certifications and qualifications.

We had sales of approximately \$7.9 million in 2015 and approximately \$8.6 million in 2014. We generated an operating loss of approximately \$455,000 in 2015 as compared to an operating loss of approximately \$52,000 in 2014.

We have experience in U.S. Government agencies, state government, Fortune 500 companies, and SMBs. We believe that the quality and consistency of our services and IT expertise has allowed us to maintain long-term relationships with our major clients.

Information Technology (IT) Solutions and Services - Our Core Strengths

We strategically built our business to deliver IT solutions and services that are intended to address challenges common to many U.S. Government agencies, state and local governments and commercial companies, including SMBs. The Company has established four pillars or business groups to focus on:

Cybersecurity bringing innovative solutions to market such as ÜberGuard and performing cybersecurity projects;

The commercial SMB market by bringing IT solutions to the Company's channel partners such as Webroot, which provides endpoint and mobile protection and cloud backup solutions, and ÜberStore, a cloud-based backup and recovery solution;

Edgar Filing: INFINITE GROUP INC - Form 10-K

Managed services by providing optimization and continuity planning, operational support services, internal automation, platform management as a service, virtualization services, and management of server, network and mobile devices; and

Product development including on demand software engineering and development of proprietary products to fit current customer needs.

Government Contract Vehicles

A government contract vehicle is a mechanism for conducting business with government entities which helps to significantly reduce such entities' lead time for procuring products or services and lowers agency acquisition costs associated with managing complex bid procedures. Our strategy has been to bid for contract vehicles that facilitate Federal and State governments' procurement requirements which allow us to compete further on task orders issued under the contract vehicles. We believe that possessing contract vehicles will facilitate sales growth if we are successful at bidding and winning business within task orders generated under these vehicles. However, the amount of sales that we may generate is not determinable until a specific project award is made.

Department of Homeland Security (DHS) Eagle II. In September 2013, DHS made awards to prime contractors under its seven-year \$22 billion Enterprise Acquisition Gateway for Leading Edge Solutions II (EAGLE II) program. Contracts are Multiple Award, Indefinite-Delivery, Indefinite-Quantity (IDIQ) to provide information technology solutions through performance of a wide range of support services. DHS issued the solicitation for EAGLE II in November 2010. We bid for work under EAGLE II with teaming members and are a specifically named small business partner with one of the prime contractor awardees. This provides us with new opportunities to generate sales to DHS. Although we have earned no revenues to date, EAGLE II task orders are expected to be issued in future periods.

Federal Supply Schedule Contract. In 2003, we were awarded a Federal Supply Schedule Contract by the U.S. General Services Administration (GSA) for IT consulting services (Schedule 70). Our Schedule 70 contract was extended through May 2019. Having a Schedule 70 allows us to compete for and secure prime contracts with all executive agencies of the U.S. Government, as well as other national and international organizations. Our Schedule 70 contract encompasses 95 different labor categories. We have used the Schedule 70 as a basis for pricing our current and proposed work.

Certifications and Partner Agreements

VMware Enterprise Solution Provider and Consulting Subcontractor. Since 2007, we have been approved as a VMware Authorized Consultant (VAC) by VMware, Inc. a subsidiary of EMC Corporation. VMware is recognized as the industry leader in virtualization technology. As a VAC, we are trained and certified to deliver consulting services and solutions leveraging VMware technology.

We recognized an increasing demand for VMware related services in the public sector (U.S. Government and state marketplace) and joined VMware's Consulting and Integration Partner (CIPP), a program, specifically targeted toward highly skilled and committed partners. We have grown to become one of VMware's largest providers of outsourced consulting, having completed over 700 projects around the globe and in market sectors including U.S. Government, state governments, education, and commercial corporations.

During 2015, we became a VMware Enterprise Level Solution Provider (ESP) where we still have the benefits of an architect, integration and service partner along with the ability to sell VMware licenses. We believe that this has positioned us to create our own opportunities to sell VMware licenses directly to end customers and still service the customer under our current relationship with the VMware Professional Services Organization. We are registered with the U.S. Federal and Education Specializations within VMware.

These certifications are examples of our concerted effort to grow and expand our virtualization practice. Recently, VMware designated us as one of an elite group of partners that will be authorized to sell VMware licenses to State and Local government and Education (SLED) customers throughout New York State under their 2016 New York State Information Technology Service (ITS) Manufacturer Umbrella Contract. We are working with a number of current and potential clients. We believe that our virtualization experience and expertise with VMware will offer

opportunities to increase sales, particularly in the cloud computing market.

5

Microsoft Silver Certified Partner. We are part of Microsoft's Accredited Online Cloud Services program. We have successfully been certified in sales, pricing and technical delivery of Office 365 which combines the familiar Office desktop suite with cloud-based versions of the next-generation communications and collaboration services: Exchange Online, SharePoint Online and Lync Online. These services are already providing real world benefits to our existing clients while allowing us to offer clear guidelines for transitioning new users to hybrid-cloud-based solutions. We have also received certification for Windows Intune which provides complete remote desktop support capabilities enhancing our overall goal of providing complete solutions for virtualization and cloud based Software as a Service (SaaS). What once required expensive hardware and time consuming deployments can now be delivered seamlessly, including web conferencing, collaboration, document management, messaging, customer relationship management and productive office web applications all with lower total cost of ownership and quicker return on investment. We believe our Microsoft competencies assist our business development personnel when presenting solutions that, if accepted, will increase our sales.

Hewlett Packard Enterprise (HPE) Global Procurement Master Terms Agreement. We are a member of a select group of suppliers that enables HPE to purchase products and services from us under a global procurement master agreement and as specified in a statement of work. HPE has many tools and resources to help us generate new sales streams, and improve our mutual profitability, while at the same time adding unique value for our joint clients. The program comprises practical tools and services that we anticipate will help us in the key areas of marketing and selling our solutions, optimizing the technology, and collaborating with other organizations within our industry in order to generate more revenue. Our global procurement master agreement with HPE runs to January 2019.

Competition

We compete with other IT professional services firms operating in the U.S. Government, state and local government and commercial marketplace. We obtain a portion of our business on the basis of proposals submitted in response to requests from potential and current clients, who typically also receive proposals from other firms.

In the U.S. Government market, many of our proposed services are included with proposals of large prime contractors, where a specific area for our participation has been identified based on our expertise and experience. Certain large prime contractors in the U.S. Government market are required to allocate a portion of their contract to small businesses and we are able to fill that role. We also face indirect competition from certain government agencies that perform services for themselves similar to those we market.

We have entered into subcontracts with systems integrators holding multi-year, multi-million dollar contracts with various agencies of the U.S. Government. In such cases, our competition is mainly with other IT services companies classified as small business entities by government standards. For prime contracts with the U.S. Government, we anticipate that our competition will range from small business set aside contractors to full and open competition with large firms such as Northrop Grumman Information Technologies, Science Applications International Corp., Computer Sciences Corp., Unisys, IBM, Booz Allen Hamilton, SRA International, Inc. and Serco Services Inc. We also have competition from cyber security providers who provide security vulnerability assessments and sell IT security software such as AlienVault, FireEye and Tenable.

Because of the diverse requirements of U.S. Government clients and the highly competitive nature of large procurements, corporations frequently form teams to pursue contract opportunities. The same companies listed as competitors will often team with us or subcontract to us in the pursuit of new business. We believe that the major competitive factors in our market are distinctive technical competencies, successful past contract performance, price of services, reputation for quality, and key management with domain expertise.

We face competition in the commercial markets from other IT service providers, large and small in all of the markets we target.

Our competitors, in general, have substantially greater capital resources, research and development staffs, sales and marketing resources, facilities and experience than we do.

6

Company Information Available on the Internet

We maintain a website at www.IGIus.com. Through a link to the Investor Relations section of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available, free of charge, as soon as reasonably practicable after we electronically file such material with or furnish it to the Securities and Exchange Commission (SEC). We also maintain a web site for our cybersecurity product, ÜberGuard, and services at <http://uberguard.com/>. The content of our websites shall not be deemed part of this report.

Employees

At December 31, 2015, we have 69 full-time employees and independent contractors, including 54 in information technology services, two in executive management, five in accounting, finance and administration, and eight in marketing and sales. We are not subject to any collective bargaining agreements and we believe that our relations with our employees are good. We believe that we are currently staffed at an appropriate level to administratively implement and carry out our business plan for the next 12 months. However, we expect to add positions in information technology services as we expand our sales.

Our ability to develop and market our services, and to establish and maintain a competitive position in our businesses will depend, in large part, upon our ability to attract and retain qualified technical, marketing and managerial personnel, of which there can be no assurance.

General Information

We were incorporated under the laws of the state of Delaware on October 14, 1986. Our principal corporate headquarters are located at 80 Office Park Way, Pittsford, NY 14534. Our business is in the field of IT services.

Item 1A. Risk Factors

In addition to the other information provided in our reports, you should consider the following factors carefully in evaluating our business and us. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or that are similar to those faced by other companies in our industry or business in general, such as competitive conditions, may also impair our business operations. If any of the following risks occur, our business, financial condition, or results of operations could be materially adversely affected.

Risks Related to our Industry

We depend on prime contracts or subcontracts with the U.S. Government for a substantial portion of our sales, and our business would be seriously harmed if the government ceased doing business with us or our prime contractors or significantly decreased the amount of business it does with us or our prime contractors.

We derived approximately 84% of our sales in 2015 and 80% in 2014 from federal, state and local government contracts as either a prime contractor or a subcontractor. We expect that we will continue to derive a substantial portion of our sales for the foreseeable future from work performed under government contracts, as we have in the past, and from marketing efforts focused on commercial enterprises. If we or our prime contractors were suspended or prohibited from contracting with federal, state or local governments, or if our reputation or relationship with the federal, state or local governments and commercial enterprises were impaired, or if any of the foregoing otherwise ceased doing business with us or our prime contractors or significantly decreased the amount of business it does with us or our prime contractors, our business, prospects, financial condition and operating results would be materially

adversely affected.

Our business could be adversely affected by changes in budgetary priorities of the U.S. Government.

Because we derive a significant portion of our sales from contracts with the U.S. Government, we believe that the success and development of our business will continue to depend on our successful participation in U.S. Government contract programs. Changes in U.S. Government budgetary priorities could directly affect our financial performance. We understand that the U.S. Government has expressed its intention to reduce its budgets related to technical services contracts in the coming years. A significant decline in government expenditures, a shift of expenditures away from programs which call for the types of services that we provide or a change in U.S. Government contracting policies, could cause U.S. Governmental agencies to reduce their expenditures under contracts, to exercise their right to terminate contracts at any time without penalty, not to exercise options to renew contracts or to delay or not enter into new contracts. Any of those actions could seriously harm our business, prospects, financial condition or operating results. Moreover, although our contracts with governmental agencies often contemplate that our services will be performed over a period of several years, Congress usually must approve funds for a given program each government fiscal year and may significantly reduce or eliminate funding for a program. Significant reductions in these appropriations by Congress could have a material adverse effect on our business. Additional factors that could have a serious adverse effect on our U.S. Government contracting business include, but may not be limited to:

changes in U.S. Government programs or requirements;

budgetary priorities limiting or delaying U.S. Government spending generally, or by specific departments or agencies in particular, and changes in fiscal policies or available funding, including potential governmental shutdowns;

reductions in the U.S. Government's use of technology solutions firms;

a decrease in the number of contracts reserved for small businesses, or small business set asides, which could result in our inability to compete directly for these prime contracts; and

curtailment of the U.S. Government's use of IT or related professional services.

The Office of Management and Budget process for ensuring government agencies properly support capital planning initiatives, including information technology investments, could reduce or delay federal information technology spending and cause us to lose revenue.

The Office of Management and Budget, or OMB, supervises spending by federal agencies, including enforcement of the Government Performance Results Act. This Act requires, among other things, that federal agencies make an adequate business justification to support capital planning initiatives, including all information technology investments. The factors considered by the OMB include, among others, whether the proposed information technology investment is expected to achieve an appropriate return on investment, whether related processes are contemporaneously reviewed, whether inter-operability with existing systems and the capacity for these systems to share data across government has been considered, and whether existing off-the-shelf products are being utilized to the extent possible. If our clients do not adequately justify proposed information technology investments to the OMB, the OMB may refuse funding for their new or continuing information technology investments, and we may lose revenue as a result.

Our contracts with the U.S. Government may be terminated or adversely modified prior to completion, which could adversely affect our business.

U.S. Government contracts generally contain provisions, and are subject to laws and regulations, that give the U.S. Government rights and remedies not typically found in commercial contracts, including provisions permitting the U.S. Government to:

terminate our existing contracts;

reduce potential future revenues from our existing contracts;

modify some of the terms and conditions in our existing contracts;

suspend or permanently prohibit us from doing business with the U.S. Government or with any specific government agency;

impose fines and penalties;

subject us to criminal prosecution;

subject the award of some contracts to protest or challenge by competitors, which may require the contracting U.S. agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new bids for the contract or result in the termination, reduction or modification of the awarded contract;

suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;

decline to exercise an option to extend an existing multiple year contract; and

claim rights in technologies and systems invented, developed or produced by us.

The U.S. Government may terminate a contract with us either "for convenience" (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if we default by failing to perform under the contract. If the U.S. Government terminates a contract with us for convenience, we generally would be entitled to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. If the U.S. Government terminates a contract with us based upon our default, we generally would be denied any recovery for undelivered work, and instead may be liable for excess costs incurred by the U.S. Government in procuring undelivered items from an alternative source. We may in the future receive show-cause or cure notices under contracts that, if not addressed to the U.S. Government's satisfaction, could give the government the right to terminate those contracts for default or to cease procuring our services under those contracts.

Our U.S. Government contracts typically have terms of one or more base years and one or more option years. Many of the option periods cover more than half of the contract's potential term. U.S. Governmental agencies generally have the right not to exercise options to extend a contract. A decision to terminate or not to exercise options to extend our existing contracts could have a material adverse effect on our business, prospects, financial condition and results of operations.

Certain of our U.S. Government contracts also contain "organizational conflict of interest" clauses that could limit our ability to compete for certain related follow-on contracts. For example, when we work on the design of a particular solution, we may be precluded from competing for the contract to install that solution. While we actively monitor our contracts to avoid these conflicts, we cannot guarantee that we will be able to avoid all organizational conflict of interest issues.

In addition, U.S. Government contracts are frequently awarded only after formal competitive bidding processes, which have been and may continue to be protracted, and typically impose provisions that permit cancellation in the event that funds are unavailable to the public agency.

The competitive bidding process presents a number of risks, including the following:

we expend substantial funds, managerial time and effort to prepare bids and proposals for contracts that we may not win;

we may be unable to estimate accurately the resources and cost that will be required to service any contract we win, which could result in substantial cost overruns; and

we may encounter expense and delay if our competitors protest or challenge awards of contracts to us in competitive bidding, and any such protest or challenge could result in a requirement to resubmit bids on modified specifications or in the termination, reduction or modification of the awarded contract.

Unfavorable government audits could require us to refund payments we have received, to forgo anticipated sales and could subject us to penalties and sanctions.

The government agencies we work for generally have the authority to audit and review our contracts with them and/or our subcontracts with prime contractors. As part of that process, the government agency reviews our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. If the audit agency determines that we have improperly received payment or reimbursement, we would be required to refund any such amount. If a government audit uncovers improper or illegal activities by us, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with the government. Any such unfavorable determination could adversely impact our ability to bid for new work which would have a negative impact on our business.

The failure by Congress to approve budgets on a timely basis for the U.S. Government agencies we support could delay procurement of our services and solutions and cause us to lose future revenues.

On an annual basis, Congress must approve budgets that govern spending by the U.S. Government agencies that we support. In years when Congress is not able to complete its budget process before the end of the U.S. Government's fiscal year, on September 30, Congress typically funds government operations pursuant to a continuing resolution. A continuing resolution allows U.S. Government agencies to operate at spending levels approved in the previous budget cycle. When the U.S. Government operates under a continuing resolution, it may delay funding we expect to receive from clients on work we are already performing and will likely result in new initiatives being delayed or in some cases cancelled.

Our gross margin from our contracts will suffer if we are not able to maintain our pricing and utilization rates and control our costs.

Our gross profit margin is largely a function of the rates we charge for our IT Services and the utilization rate, or chargeability, of our employees. Accordingly, if we are not able to maintain the rates we charge for our services or an appropriate utilization rate for our employees, we will not be able to sustain our gross profit margin and earn a sufficient amount to fund our operating expenses. The rates we charge for our IT Services are affected by a number of factors, including:

our clients' perception of our ability to add value through our services;

competition;

introduction of new services or products by us or our competitors;

pricing policies of our competitors; and

general economic conditions.

Our utilization rates are also affected by a number of factors, including:

seasonal trends, primarily as a result of holidays, vacations, and slowdowns by our clients, which may have a more significant effect in the fourth quarter;

our ability to transition employees from completed engagements to new engagements;

our ability to forecast demand for our services and thereby maintain an appropriately balanced and sized workforce; and

our ability to manage employee turnover.

We have implemented cost-management programs to manage our costs, including personnel costs, support and other overhead costs. Some of our costs, like office rents, are fixed in the short term, which limits our ability to reduce costs in periods of declining sales. Our current and future cost-management initiatives may not be sufficient to maintain our margins as our level of sales varies.

If we fail to meet our contractual obligations to our clients, our ability to compete for future work and our financial condition may be adversely affected.

If we fail to meet our contractual obligations, we could be subject to legal liability, which could adversely affect our business, operating results and financial condition. The provisions we typically include in our contracts which are designed to limit our exposure to legal claims relating to our services may not protect us or may not be enforceable under some circumstances or under the laws of some jurisdictions. It is possible, because of the nature of our business, that we may be exposed to legal claims in the future. We have errors and omissions insurance with coverage limits of \$1 million, subject to a \$100,000 deductible payable by us. The policy limits may not be adequate to provide protection against all potential liabilities. As a consulting firm, we depend to a large extent on our relationships with our clients and our reputation for high-quality services to retain and attract clients and employees. As a result, claims made against us may damage our reputation, which in turn, could impact our ability to compete for new business.

The IT services industry is highly competitive, and we may not be able to compete effectively.

We operate in a highly competitive industry that includes a large number of participants. We believe that we currently compete principally with other IT professional services firms, technology vendors and the internal information systems groups of our clients. Many of the companies that provide services in our markets have significantly greater financial, technical and marketing resources than we do. Our marketplace continues to experience rapid changes in its competitive landscape. Some of our competitors have sought access to public and private capital and others have merged or consolidated with better-capitalized partners. These changes may create more or larger and better-capitalized competitors with enhanced abilities to compete for market share generally and our clients specifically, in some cases, through significant economic incentives to clients to secure contracts. These competitors may also be better able to compete for skilled professionals by offering them large compensation incentives. One or more of our competitors may develop and implement methodologies that result in superior productivity and price reductions without adversely affecting the competitors' profit margins. In addition, there are relatively few barriers to entry into our markets and we have faced, and expect to continue to face, competition from new entrants into our markets. As a result, we may be unable to continue to compete successfully with our existing or any new competitors.

We may lose money on some contracts if we do not accurately estimate the expenses, time and resources necessary to satisfy our contractual obligations.

We enter into two types of U.S. Government contracts for our services: time-and-materials and fixed-price. Each of these types of contracts, to varying degrees, involves some risk that we could underestimate our cost of fulfilling the contract, which may reduce the profit we earn or lead to a financial loss on the contract.

Under time and materials contracts, we are reimbursed for labor at negotiated hourly billing rates and for certain expenses. We assume financial risk on time and material contracts because we assume the risk of performing those contracts at negotiated hourly rates.

Under fixed-price contracts, we perform specific tasks for a fixed price. Compared to cost-plus contracts, fixed price contracts generally offer higher margin opportunities, but involve greater financial risk because we bear the impact of cost overruns and bear the risk of underestimating the level of effort required to perform the contractual obligations, which could result in increased costs and expenses.

Our profits could be adversely affected if our costs under any of these contracts exceed the assumptions we used in bidding for the contract.

If we fail to establish and maintain important relationships with government entities and agencies, our ability to successfully bid for new business may be adversely affected.

To develop new business opportunities, we rely on establishing and maintaining relationships with various government entities and agencies. We may be unable to successfully maintain our relationships with government entities and agencies, and any failure to do so could materially adversely affect our ability to compete successfully for new business.

Our business may suffer if our facilities or our employees are unable to obtain or retain the security clearances or other qualifications needed to perform services for our clients.

Many of our U.S. Government contracts require employees and facilities used in specific engagements to hold security clearances and to clear National Agency Checks and Defense Security Service checks. Some of our contracts require us to employ personnel with specified levels of education, work experience and security clearances. Depending on the level of clearance, security clearances can be difficult and time-consuming to obtain. If our employees or our facilities lose or are unable to obtain necessary security clearances or successfully clear necessary National Agency or Defense Security Service checks, we may not be able to win new business and our existing clients could terminate their contracts with us or decide not to renew them, and in each instance our operating results could be

materially adversely affected.

We must comply with a variety of laws, regulations and procedures and our failure to comply could harm our operating results.

We must observe laws and regulations relating to the formation, administration and performance of U.S. Government contracts which affect how we do business with our clients and impose added costs on our business. For example, the Federal Acquisition Regulation and the industrial security regulations of the Department of Defense and related laws include provisions that:

allow our U.S. Government clients to terminate or not renew our contracts if we come under foreign ownership, control or influence;

require us to disclose and certify cost and pricing data in connection with contract negotiations;

require us to prevent unauthorized access to classified information; and

require us to comply with laws and regulations intended to promote various social or economic goals.

We are subject to industrial security regulations of the U.S. Government agencies that are designed to safeguard against foreigners' access to classified information. If we were to come under foreign ownership, control or influence, we could lose our facility security clearance, which could result in our U.S. Government clients terminating or deciding not to renew our contracts, and could impair our ability to obtain new contracts.

In addition, our employees often must comply with procedures required by the specific agency for which work is being performed, such as time recordation or prohibition on removal of materials from a location.

Our failure to comply with applicable laws, regulations or procedures, including U.S. Government procurement regulations and regulations regarding the protection of classified information, could result in contract termination, loss of security clearances, suspension or prohibition from contracting with the U.S. Government, civil fines and damages and criminal prosecution and penalties, any of which could materially adversely affect our business.

The U.S. Government may revise its procurement or other practices in a manner adverse to us.

The U.S. Government may revise its procurement practices or adopt new contracting rules and regulations, such as cost accounting standards. It could also adopt new contracting methods relating to GSA contracts, government-wide contracts, or adopt new standards for contract awards intended to achieve certain social or other policy objectives, such as establishing new set-aside programs for small or minority-owned businesses. In addition, the U.S. Government may face restrictions from new legislation or regulations, as well as pressure from government employees and their unions, on the nature and amount of services the U.S. Government may obtain from private contractors. These changes could impair our ability to obtain new contracts or contracts under which we currently perform when those contracts are put up for re-competition bid. Any new contracting methods could be costly or administratively difficult for us to implement, and, as a result, could harm our operating results. For example, the Truthfulness, Responsibility and Accountability in Contracting Act, proposed in 2001, would have limited and severely delayed the U.S. Government's ability to use private service contractors. Although this proposal was not enacted, it or similar legislation could be proposed at any time. Any reduction in the U.S. Government's use of private contractors to provide federal information technology services could materially adversely impact our business.

Failure to maintain strong relationships with government contractors could result in a decline in our sales.

We derived approximately 86% of our sales in 2015 from contracts under which we acted as a subcontractor. Our subcontracts with prime contractors contain many of the same provisions as the prime contracts and therefore carry many of the same risks previously identified in these Risk Factors. As a subcontractor, we often lack control over fulfillment of a contract, and poor performance on the contract by others could tarnish our reputation, even when we perform as required. We expect to continue to depend on relationships with other contractors for a significant portion of our sales in the foreseeable future. Moreover, our sales and operating results could be materially adversely affected if any prime contractor chooses to offer services of the type that we provide or if any prime contractor teams with other companies to independently provide those services.

Risks Related to our Business and Financial Condition

We are highly leveraged, which increases our operating deficit and makes it difficult for us to grow.

At December 31, 2015, we had current liabilities, including trade payables, of approximately \$2.1 million and long-term liabilities of \$2.1 million. We had a working capital deficit of approximately \$1.9 million and a current ratio of .08. If we experience working capital shortages that impair our business operations and growth strategy, our business, operations and financial condition will be materially adversely affected.

We have been dependent on a limited number of high net worth individuals to fund our working capital needs.

From 2003 through 2015 we received approximately \$3.6 million in a combination of equity, debt conversion and debt transactions from a limited number of high net worth investors. We cannot provide assurance that we will be able to continue to raise additional capital from this group of investors, or that we will be able to secure funding from additional sources.

At December 31, 2015, we have current notes payable of \$120,000 to related parties, \$72,000 to third parties, and current maturities of long-term obligations of approximately \$279,000. Included in the \$279,000 are convertible notes payable of \$100,000 which mature on October 3, 2016, \$150,000 which mature on December 31, 2016, and \$29,000 of current maturities due throughout 2016. We have \$419,000 due to related parties which mature on January 1, 2017. We have other maturities of our long-term notes to related and third parties of \$959,000 in 2017 and \$690,000 in 2018. We cannot provide assurance that we will be able to obtain extensions of maturity dates for long-term notes payable when they mature or that we will be able to repay or otherwise refinance the notes at their scheduled maturities.

We may require additional financing in the future, which may not be available on acceptable terms.

We may require additional funds for working capital and general corporate purposes. We cannot provide assurance that adequate additional financing will be available or, if available, will be offered on acceptable terms.

Moreover, our IT services billings generate accounts receivable that are generally paid within 30 to 60 days from the invoice date. The cost of those sales generally consists of employee salaries and benefits that we must pay prior to our receipt of the accounts receivable to which these costs relate. We therefore need sufficient cash resources to cover such employee-related costs which, in many cases, require us to borrow funds at costly terms.

We have secured 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 million, including a sublimit for one major client of \$1.5 million. This provides us with the cash needed to finance certain costs and expenses. At December 31, 2015, we had financing availability, based on eligible accounts receivable, of approximately \$20,000 under this line. We pay fees based on the length of time that the invoice remains unpaid. As we grow, additional working capital may be required to support this difference in the timing of cash receipts versus payroll disbursements. Moreover, our accounts receivable financing lender may decide to cease subsequent advances at any time in its discretion, upon our failure to meet certain contractual requirements or upon the occurrence of certain events or contingencies that are out of our control. In such event, our short-term cash requirements would exceed available cash on hand resulting in material adverse consequences to our business.

Finally, any additional equity financing and conversions by the holders of existing notes payable to common stock will be dilutive to stockholders. Debt financings, if available, may involve restrictive covenants that further limit our ability to make decisions that we believe will be in our best interests. In the event we cannot obtain additional financing on terms acceptable to us when required, our operations will be materially adversely affected and we may

have to cease or substantially reduce operations.

We rely on two customers for a large portion of our revenues.

We depend on two customers for a large portion of our revenue. During 2015, sales to one client, including sales under subcontracts for services to several entities, accounted for 60.1% of total sales and 29.1% of accounts receivable at December 31, 2015. Sales to another client, which consisted of sales under subcontracts, accounted for 25.7% of sales in and 36.2% of accounts receivable at December 31, 2015. The loss of one of these customers or a material subcontract with one of these customers could have a significant impact on our revenues and harm our business and results of operations.

Recent events affecting the credit markets may restrict our ability to access additional financing.

Over the last several years, the U.S. and worldwide capital and credit markets have experienced significant price volatility, dislocations 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, which may negatively affect our ability to fund current operations or expand our business. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of our equity securities. 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.

If we acquire businesses or business assets and do not successfully integrate the acquisitions, our results of operations could be adversely affected.

We may grow our business by acquiring or investing in companies and businesses and assets that we feel have synergy and will complement our business plan. As such, we periodically evaluate potential business combinations and investments in other companies and assets. We may be unable to profitably manage businesses and assets that we may acquire or invest in. We may fail to integrate these businesses and assets successfully without incurring substantial expenses, delays or other problems that could negatively impact our results of operations.

If we fail to pay the balance of the purchase price for our ÜberScan software when due, our cyber security business would be materially adversely affected.

We paid \$80,000 of the purchase price for the ÜberScan software in the form of a secured promissory note which maturity has been extended to June 30, 2016. As security for our obligations under the note, we granted the seller a lien on the ÜberScan software. If we do not pay the note, that has a balance of \$42,000 at December 31, 2015, when due (after all applicable grace periods), the seller will have all the remedies of a secured party under the Uniform Commercial Code, including the right to take possession of the ÜberScan software and to sell it in order to satisfy our obligations under the note. Additionally, in connection with our purchase of the ÜberScan software, we granted an affiliate of the seller a perpetual, royalty-free, non-exclusive license to continue to use the ÜberScan software to service its existing commercial customers in the same manner as it had serviced them prior to the sale. Our license agreement with that affiliate of the seller provides that in the event of a default under the promissory note (after all applicable grace periods), all restrictions on the license granted to the affiliate will lapse and the affiliate will be entitled to use the ÜberScan software for any purpose. If we fail to pay the promissory note when due (after all applicable grace periods) and the seller takes possession of the ÜberScan software, we would lose all rights to it. If the affiliate of the seller is able to use the ÜberScan software without restriction, the value to us of the ÜberScan software would be materially diminished. In either case, our cyber security business would be materially adversely affected.

Our investments in cyber security and other business initiatives may not be successful.

We have invested in and continue to invest in cyber security capabilities to add new products and services to address the needs of our clients. Our investments may not be successful or increase our revenues. If we are not successful in creating value from our investments by increasing sales, our financial condition and prospects could be harmed.

If we fail to adequately manage the size of our business, it could have a severe negative impact on our financial results or stock price.

Our management believes that in order to be successful we must appropriately manage the size of our business. This may mean reducing costs and overhead in certain economic periods, and selectively growing in periods of economic expansion. In addition, we will be required to implement operational, financial and management information procedures and controls that are efficient and appropriate for the size and scope of our operations. The management skills and systems currently in place may not be adequate and we may not be able to manage any significant reductions or growth effectively.

We may have difficulties in managing our growth.

Our future growth depends, in part, on our ability to expand, train and manage our employee base and provide support to an expanded client base. If we cannot manage growth effectively, it could have a material adverse effect on our results of operations, business and financial condition. In addition, acquisitions, investments and expansion involve substantial infrastructure costs and working capital. We cannot provide assurance that we will be able to integrate acquisitions, if any, and expansions efficiently. Similarly, we cannot provide assurance that any investments or expansion will enhance our profitability. This includes our investments in cyber security initiatives. If we do not achieve sufficient sales growth to offset increased expenses associated with our expansion, our results will be adversely affected.

We depend on the continued services of our key personnel.

Our future success depends, in part, on the continuing efforts of our senior executive officers. The loss of any of these key employees may materially adversely affect our business.

Our future success depends on our ability to continue to retain and attract qualified employees.

We believe that our future success depends upon our ability to continue to train, retain, effectively manage and attract highly skilled technical, managerial, sales and marketing personnel. This includes skills for our new initiatives in cyber security. Employee turnover is generally high in the IT services industry. If our efforts in these areas are not successful, our costs may increase, our sales efforts may be hindered, and the quality of our client service may suffer. Although we invest significant resources in recruiting and retaining employees, there is often significant competition for certain personnel in the IT services industry. From time to time, we experience difficulties in locating enough highly qualified candidates in desired geographic locations, or with required specific expertise.

We may lose revenue and our cash flow and profitability could be negatively affected if expenditures are incurred prior to final receipt of a contract or contract funding modification.

We provide professional services and sometimes procure materials on behalf of our clients under various contract arrangements. From time to time, in order to ensure that we satisfy our clients' delivery requirements and schedules, we may elect, based on verbal authorization, to initiate procurements or provide services in advance of receiving formal written contractual authorization from the government client or a prime contractor. If our government or prime contractor requirements should change or the government directs the anticipated procurement to a contractor other than us, or if the materials become obsolete or require modification before we are under contract for the procurement,

our investment might be at risk. If we do not receive the required funding, our cost of services incurred in excess of contractual funding may not be recoverable. This could reduce anticipated revenue or result in a loss, negatively affecting our cash flow and profitability.

Our employees or subcontractors may engage in misconduct or other improper activities, which could cause us to lose contracts.

While we have ethics and compliance programs in place, we are exposed to the risk that employee fraud or other misconduct could occur. We enter into arrangements with prime contractors and joint venture partners to bid on and execute particular contracts or programs. As a result, we are exposed to the risk that fraud or other misconduct or improper activities by such persons may occur. Misconduct by employees, prime contractors or joint venture partners could include intentional failures to comply with federal laws, including U.S. Government procurement regulations, proper handling of sensitive or classified information, compliance with the terms of our contracts that we receive, and falsifying time records or failures to disclose unauthorized or unsuccessful activities to us. These actions could lead to civil, criminal, and/or administrative penalties (including fines, imprisonment, suspension and/or bars from performing U.S. Government contracts) and harm our reputation. The precautions we take to prevent and detect such activity may not be effective in controlling unknown or unmanaged risks or losses, and such misconduct by employees, prime contractors or joint venture partners could result in serious civil or criminal penalties or sanctions or harm to our reputation, which could cause us to lose contracts or cause a reduction in revenue.

Risks Related to our Common Stock

Certain stockholders own a significant portion of our stock and may delay or prevent a change in control or adversely affect the stock price through sales in the open market.

As of March 21, 2016, one related party and one third party, who is a former member of the board of directors, hold convertible notes payable with the right to convert the notes payable and accrued interest into shares of common stock at \$.05 per share. Another related party has the right to convert a note payable at \$.16 per share. If these parties converted all of the principal and accrued interest into common stock, these three individuals would own approximately 13.6%, 30.5% and 3.2%, respectively, (47.3% in the aggregate of our then outstanding common stock, excluding stock options and warrants). However, such notes may not be converted if such conversion would result in a change in control which would limit the use of our net operating loss carryforwards. We estimate as of the date of this report that substantially all convertible notes payable and accrued interest due to all related parties could be converted to shares of common stock, without affecting a change of control that would limit the use of our net operating loss carryforwards.

The concentration of large percentages of ownership by a single stockholder or a few stockholders may delay or prevent a change in control. Additionally, the sale of a significant number of our shares in the open market by a single stockholder or otherwise could adversely affect our stock price.

The price of our common stock may be adversely affected by the possible issuance of shares to third parties as a result of the conversion of outstanding notes.

We have various convertible notes outstanding to third parties that are convertible into shares of common stock at prices ranging from \$.05 to \$.25 per share. If all of these notes were converted into common stock, the holders would receive 4,700,000 shares of our common stock or approximately 15.0% of our then outstanding common stock.

The conversion or exercise of convertible notes payable and the subsequent sale, or potential sale, of a substantial number of shares of our common stock could adversely impact the market price of our stock.

Our stock price is volatile and could be further affected by events not within our control.

The trading price of our common stock has been volatile and will continue to be subject to volatility in the trading markets and other factors.

The closing market price for our common stock varied between a low of \$.02 in and a high of \$.17 in December 2015. This volatility may affect the price at which a stockholder could sell its shares of common stock, and the sale of substantial amounts of our common stock could adversely affect the price of our common stock. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors, including variations in our quarterly operating results and announcement by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, or capital commitments.

Our common stock is currently quoted on the Over The Counter (OTC) Bulletin Board. Because there is a limited public market for our common stock, a stockholder may not be able to sell shares when he or she wants. We cannot assure you that an active trading market for our common stock will ever develop.

There is limited trading in our common stock and we cannot assure you that an active public market for our common stock will ever develop. The lack of an active public trading market means that a stockholder may not be able to sell shares of common stock when wanted, thereby increasing market risk. Until our common stock is listed on an exchange, we expect that the shares will continue to be quoted on the OTC Bulletin Board. However, an investor may find it difficult to obtain accurate quotations regarding the common stock's market value. In addition, if we failed to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect the shares liquidity. Moreover, our ability to obtain future financing may be adversely affected by the consequences of our common stock trading on the OTC Bulletin Board.

Our common stock may be considered a "penny stock" and may be difficult to buy or sell.

The Securities and Exchange Commission (SEC) has adopted regulations which generally define "penny stock" to be an equity security that has a market or exercise price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock is currently below \$5.00 per share and therefore may be designated as a "penny stock" according to SEC rules. This designation requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of our stockholders to sell their shares.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The table below lists our facility location and square feet owned or leased. The lease for our Pittsford, New York headquarters includes an escalation provision for property taxes and two three-year renewal options with annual rent escalating at 3.5% at each lease renewal.

At December 31, 2015

	Owned	Square Feet	Leased	Annual Rent	Termination Date
--	-------	-------------	--------	-------------	------------------

Pittsford, New York	-	7,112		\$ 64,900	May 31, 2016
---------------------	---	-------	--	-----------	--------------

We sublease 2,500 square feet to a related party with annual rent of \$18,097.

We believe our facility is in good operating condition. We do not own or intend to invest in any real property and currently have no policy with respect to investments or interests in real estate, real estate mortgage loans or securities or interests in persons primarily engaged in real estate activities.

Item 3. Legal Proceedings

We are not presently involved in any material legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is quoted on the OTC Bulletin Board under the symbol IMCI. The following table sets forth, for the periods indicated, the high and low closing bid quotations per share for our common stock for each quarter within the last two fiscal years, as reported by the OTC Bulletin Board. Quotations represent interdealer prices without an adjustment for retail markups, markdowns or commissions and may not represent actual transactions:

	Bid Prices	
Year Ended December 31, 2015	High	Low
First Quarter	\$.05	\$.02
Second Quarter	\$.13	\$.02
Third Quarter	\$.10	\$.04
Fourth Quarter	\$.17	\$.02
Year Ended December 31, 2014	High	Low
First Quarter	\$.12	\$.08
Second Quarter	\$.09	\$.04
Third Quarter	\$.07	\$.03
Fourth Quarter	\$.06	\$.03

At March 21, 2016, we had 218 record stockholders and approximately 1,500 beneficial stockholders.

Dividend Policy

We have never declared or paid a cash dividend on our common stock. It has been the policy of our board of directors (the “Board”) to retain all available funds to finance the development and growth of our business. The payment of cash dividends in the future will be dependent upon our earnings and financial requirements and other factors deemed relevant by our Board.

Item 6. Selected Financial Data

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary statement identifying important factors that could cause our actual results to differ from those projected in forward looking statements.

Readers of this report are advised that this document contains both statements of historical facts and forward looking statements. Forward looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those indicated by the forward looking statements. Examples of forward looking statements include, but are not limited to (i) projections of sales, income or loss, earnings per share, capital expenditures, dividends, capital structure, and other financial items, (ii) statements of our plans and objectives with respect to business transactions and enhancement of stockholder value, (iii) statements of future economic performance, and (iv) statements of assumptions underlying other statements and statements about our business prospects.

This report also identifies important factors, which could cause actual results to differ materially from those indicated by the forward looking statements. These risks and uncertainties include the factors discussed under the heading “Risk Factors” of this report.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements and the notes thereto appearing elsewhere in this report.

Business Overview

The Company has established four pillars or business groups to focus on:

Cybersecurity bringing innovative solutions to market such as ÜberGuard and performing cybersecurity projects;

The commercial SMB market by bringing IT solutions to the Company's channel partners such as Webroot, which provides endpoint and mobile protection and cloud backup solutions, and ÜberStore, a cloud-based backup and recovery solution;

Managed services by providing optimization and continuity planning, operational support services, internal automation, platform management as a service, virtualization services, and management of server, network and mobile devices; and

Product development including on demand software engineering and development of proprietary products to fit current customer needs.

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 cybersecurity 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. Our objective is to expand our sales with our existing clients by expanding within those organizations.

We derived approximately 84% of our sales in 2015 and 80% in 2014 from federal, state and local government contracts as either a prime contractor or a subcontractor.

During 2015, we derived approximately 60% of our sales from one client, including sales under subcontracts for services to several of its end clients including a large enterprise Fortune 100 company and a major establishment of the U.S. Government (the “U.S. Government Entity”) for which we manage one of the nation’s largest Microsoft Windows environments. We have been providing this service to the U.S. Government Entity under a long-standing subcontract, which has been renewed annually since 2004. Our team of server experts supports approximately 3,000 servers and 250,000 client stations from facilities in Maryland and Colorado. Operating 24 hours per day and seven days per week, we consistently meet or exceed the requirements of our service level agreements. We refer to this as our Advanced Server Management (ASM) team.

We provide support to professional service organizations of software companies that need additional skilled resources when implementing solutions. Our technical support personnel maintain leading edge certifications and qualifications in the respective software applications. During 2015, we provided professional services to clients from whom we derived approximately 26% of our sales. Sales to our principal client, VMware, Inc., consisted of sales under subcontracts for services to their end clients of which approximately 70% are U.S. Government agencies and 30% are commercial entities. Our experience with cloud and virtualization computing related software has placed us in a position to take advantage of a growing trend towards Managed IT Services, particularly in the SMB space. We believe that the cloud and virtualization experience that we gained from working with large institutions and government agencies differentiates us from our competition, particularly within the SMB space. Accordingly, increasing our revenues from direct sales to SMBs is one of our priorities.

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. For example, during 2014, we managed a bar code system implementation project for a manufacturing company that integrated production, inventory control and product delivery. This required developing a hardware solution, modifying software code to integrate information reporting and to interface delivery with customer systems. We also act as IT Director overseeing all aspects of IT on a daily basis including new systems development and implementation.

During 2015, we continued to provide expert management services to customers in a number of sectors including manufacturing. We leveraged existing bar-code technology to improve plant productivity by eliminating repetitious, manual operations. Expansion of this technology throughout the year continued to reduce errors while improving production operations and inventory control. By partnering with several business units, we introduced methods that streamlined processes and delivered key, automated reports which improved forecasting while reducing manual effort, all resulting in increased efficiency. Strategic deployment of technology-based solutions within the customer enterprise has positioned our customer for continued growth with a positive impact to their bottom line.

During 2014, we performed system characterizations and internal and external vulnerability network scans using third-party proprietary software known as ÜberScan. In February 2015, we purchased all rights to the software from ÜberScan, LLC and hired a Director of CyberSecurity who has expertise in designing, developing, marketing, and selling network security assessment services using the ÜberScan software. We increased our cybersecurity sales using our proprietary ÜberScan software by selling cybersecurity services directly to end customers. We provide technical and executive summary reports of ongoing risks, identify and prioritize security vulnerabilities and communicate remediation recommendations to end customers. During 2015, we invested in software development and upgraded and added to the feature sets of ÜberScan software to improve its current and future marketability. We also created a new cybersecurity product, ÜberGuard, that we began to market in late 2015. During 2016, we have continued to add features and created a new version. We are now marketing ÜberGuard as a product that assesses vulnerabilities in a computer network using scanning technology to capture a comprehensive view of the security exposure of a network and infrastructure. The system initiates and runs custom internal and external vulnerability scans, generates reports, and manages remediation from one interface. It also centralizes, creates and updates a user's cybersecurity policies. We market ÜberGuard with an annual license fee.

We provide on and off-site client support to best meet our clients' needs. We have several contract vehicles that enable us to deliver a broad range of our services and solutions as a prime contractor or subcontractor to the U.S., state and local governments and commercial customers.

Our professionals are located at our headquarters in Pittsford, New York and in Colorado, Maryland, North Carolina, South Carolina, and Virginia. We are able to provide onsite service to most locations around the world including military bases.

As of December 31, 2015, we had 69 full-time employees and information technology independent contractors. Approximately 15% of our employees hold U.S. Government security clearances. We also possess certifications with our business and technology partners and our personnel maintain numerous certifications and qualifications.

We had sales of approximately \$7.9 million in 2015 and approximately \$8.6 million in 2014. We generated an operating loss of approximately \$455,000 in 2015 and \$52,000 in 2014.

We have experience in U.S. Government agencies, state government, Fortune 500 companies, and SMBs. The quality and consistency of our services and IT expertise allow us to maintain long-term relationships with our major clients.

One of our strategies has been to bid for contract vehicles that facilitate Federal and state governments' procurement requirements. There is uncertainty in the process that leads to an award which includes the possibility that no award is ever made. A win on one of these procurements will allow us to compete further on task orders issued under the contract vehicle. In the past we have been awarded or we have become a subcontractor on certain contract vehicles which permit us to bid on new projects (task orders) and/or be included within bids of prime contractors. We continue to pursue the capture of business by remaining active in the bidding process.

Although we believe we have opportunities for sales growth with government and commercial clients, the lengthy and uncertain procurement processes may cause our sales to grow slowly and result in inconsistent operating income or in operating losses until our sales are at a level sufficient to support our operations. 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. As a business development strategy, we jointly bid with prime contractors on large government wide procurements. If an award is made and our team wins, we expect to be allocated a portion of sales to a U.S. Government agency under the small business requirement.

In the future, we may issue additional debt or equity securities to satisfy our cash needs. Any debt incurred or issued may be secured or unsecured, at a fixed or variable interest rate and may contain other terms and conditions that our Board deems prudent. Any sales of equity securities may be at or below current market prices. We cannot assure you that we will be successful in generating sufficient capital to adequately fund our working capital needs.

Results of Operations - Comparison of the years ended December 31, 2015 and 2014

The following table compares our statements of operations data for the years ended December 31, 2015 and 2014.

Year Ended December 31,

	2015 vs. 2014					
	2015	As a % of Sales	2014	As a % of Sales	Amount of Change	% Increase (Decrease)
Sales	\$7,945,921	100.0%	\$8,567,736	100.0%	\$(621,815)	(7.3)%
Cost of sales	5,994,857	75.4	6,386,182	74.5	(391,325)	(6.1)
Gross profit	1,951,064	24.6	2,181,554	25.5	(230,490)	(10.6)
General and administrative	1,518,958	19.1	1,302,329	15.2	216,629	16.6
Selling	887,445	11.2	930,897	10.9	(43,452)	(4.7)
Total costs and expenses	2,406,403	30.3	2,233,226	26.1	173,177	7.8
Operating loss	(455,339)	(5.7)	(51,672)	(.6)	(403,667)	781.2
Loss on investment	(109,000)	(1.4)	(168,000)	(2.0)	(59,000)	(35.1)
Interest expense	(246,743)	(3.1)	(278,328)	(3.2)	(31,585)	(11.3)
Net loss	\$(811,082)	(10.2)%	\$(498,000)	(5.8)%	\$(313,082)	62.9%
Net loss per share - basic and diluted	\$(.03)		\$(.02)		\$(.01)	

Sales

Sales for 2015 were \$7,945,921 a decrease of \$621,815 or 7.3% as compared to sales for 2014 of \$8,567,736. Sales of virtualization projects decreased during 2015 as compared to 2014 by approximately \$530,000 as our volume of sales opportunities decreased. We also realized sales decreases during 2015 as compared to 2014 of approximately \$300,000 due to a lower rate when our principal contract with Hewlett-Packard Enterprise was renewed for its twelfth consecutive year. This rate reduction will continue through the next annual contract renewal date of October 1, 2016. During 2015, we began to deliver cyber security assessments, reports and other cyber security services and we sold third party software licenses to our SMB partners, which offset a portion of the 2015 sales decreases stated above.

One of our priorities is to increase sales. During 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 continue to fund the cost for the new sales personnel from our operating cash flows and incremental

borrowings, as needed.

Cost of Sales and Gross Profit

Cost of sales principally represents the cost of employee services and is related to our sales. Cost of sales for 2015 was \$5,994,857 or 75.4% of sales as compared to \$6,386,182 or 74.5% of sales for 2014. Gross profit was \$1,951,064 or 24.6% of sales for 2015 compared to \$2,181,554 or 25.5% of sales for 2014.

Gross profit was affected by sales decreases of approximately \$300,000 during 2015 due to a lower rate when our principal contract with Hewlett-Packard Enterprise was renewed for its twelfth consecutive year. On an annual basis, this reduces our gross profit margin by approximately 3.8%. This decrease was offset by gross profit earned from our sales of third party software licenses to our SMB partners.

General and Administrative Expenses

General and administrative expenses include bad debt expense and 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 2015 increased by \$216,629 or 16.6% from \$1,302,329 for 2014 to \$1,518,598 for 2015. As a percentage of sales, general and administrative expenses were 19.1% for 2015 and 15.2% for 2014.

During 2015, the accounts receivable balance of \$110,000 due from Sudo.me Corporation (goSudo) was converted to a demand note with interest at 10% and was fully reserved upon conversion, due to continued net losses of goSudo. As a result, bad debt expense of \$110,000 was recorded for 2015 and is included in general and administrative expenses. The increase in general and administrative expenses in 2015 is also a result of increases in professional fees of approximately \$40,000 in connection with the purchase of ÜberScan software and public reporting requirements and the addition of an executive officer, Chief Administrative 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 \$34,800 for stock options expense and approximately \$43,000 for shareholder investor relations and communications expense.

Selling Expenses

For 2015, we incurred selling expenses of \$887,445 compared to \$930,897 for 2014, a decrease of \$43,452 or 4.7%. These changes are due to various minor changes in expense items from period to period and a decrease in stock options expense of approximately \$12,500 in 2015. In 2015, we hired employees to focus on increasing our cybersecurity and virtualization project, services and software sales. However, we eliminated certain sales positions which offset a portion of the expenses associated with these new personnel.

Operating Loss

For 2015 our operating loss was \$455,339 compared to \$51,672 for 2014, an increase of \$403,667. The increase in our operating loss is principally attributable to a decrease in gross profit of \$230,490 an increase in our general and administrative expenses of \$216,629, which includes bad debt expense on a note receivable of \$110,000, offset by a decrease in selling expense of \$43,452 during 2015.

Loss on Investment

During 2014 and 2013, we purchased an aggregate of 300,000 shares of Series A Convertible Preferred Stock of goSudo for an aggregate purchase price of \$300,000 pursuant to the terms and conditions of a preferred stock purchase agreement. There were no additional purchases in 2015. As a result, at December 31, 2015 and 2014, 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). The investment is accounted for using the equity method since our management exercises significant influence over the operating and financial policies of goSudo. The investment was fully reserved and written down to zero during 2015. We recorded a loss on investment of \$109,000 during 2015 (\$168,000 - 2014).

Interest Expense

Interest expense includes interest on indebtedness and fees for financing accounts receivable invoices. Interest expense was \$246,743 for 2015, a decrease of \$31,585 from interest expense of \$278,328 for 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. Interest expense subsequently increased by borrowings under our line of credit beginning in December 2014 to fund our operating losses and interest on our note payable in connection with the acquisition of ÜberScan software in 2015.

Net Loss

For 2015, we recorded a net loss of \$811,082 or \$.03 per share compared to a net loss of \$498,000 or \$.02 per share for 2014.

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 December 31, 2015, we had cash of \$13,510 available 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 December 31, 2015, we had approximately \$20,000 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 \$200,000 during 2015 for working capital and have a balance outstanding under the line of \$394,028 at December 31, 2015. We borrowed \$200,000 under the LOC Agreement during 2014 for working capital. In addition, during 2015, we borrowed \$25,000 from an executive officer.

At December 31, 2015, we had a working capital deficit of approximately \$1,900,000 and a current ratio of .08. This increase in the working capital deficit from approximately \$1,032,000 at December 31, 2014 is principally due to a decrease in accounts receivable of approximately \$243,000, an increase in accounts payable and accrued expenses of approximately \$325,000, and the scheduled maturity of notes payable due to third parties of \$100,000 on October 3, 2016 and \$150,000 on December 31, 2016. We also originated a short-term secured promissory note in the principal amount of \$80,000 during 2015 in connection with the purchase of ÜberScan software that matures, as amended, on March 31, 2016 with a current balance of \$42,000. 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.

At December 31, 2014, we had cash of \$7,768 available for our primary liquidity needs for working capital needs and planned capital asset expenditures. During 2014, 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 December 31, 2014, we had financing availability, based on eligible accounts receivable, of approximately \$140,000 under this line.

We believe the capital resources available under our factoring line of credit, cash from additional related party and third 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 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 third parties; issuance of equity; use of our existing accounts receivable credit facility; or a refinancing of our accounts receivable credit facility.

On March 14, 2016, we entered into an unsecured financing agreement with a third party lender. The agreement provides for \$500,000 of working capital with three draws of \$200,000 on March 29, 2016, \$200,000 in July 1, 2016 and \$100,000 on October 1, 2016. Borrowings bear interest at 6% with interest due quarterly. Principal is due on December 31, 2021. Principal and interest may become immediately due and payable upon the occurrence of customary events of default. In consideration for providing the financing, we paid the lender a fee consisting of 2,500,000 shares of our common stock valued at \$37,500 on the date of the agreement based upon the closing bid quotation of our common stock on the OTC Bulletin Board on that date. The lender has piggy back registration rights for these shares. Our Chief Executive Officer and President agreed to guarantee the loan obligations if he is no longer an “affiliate” of the Company as defined by Securities and Exchange Commission rules.

The following table summarizes our cash flow information for the years presented, described below, and should be read in conjunction with our financial statements appearing at Item 15, Page F-1, et seq., of this report.

	Years ended December 31,	
	2015	2014
Net cash provided (used) by operating activities	\$5,857	\$(77,703)
Net cash used by investing activities	(103,812)	(68,966)
Net cash provided by financing activities	103,697	137,490
Net increase (decrease) in cash	\$5,742	\$(9,179)

Cash Flows Provided (Used) by Operating Activities

Cash provided by operations was \$5,857 during 2015 compared with cash used of \$77,703 for 2014. For 2015, our net loss of \$811,082, non-cash expenses for depreciation and amortization, stock based compensation and loss on equity investment totaling of \$341,750, an increase in cash flows from accounts receivable and other assets of \$141,294, and an increase in current liabilities of \$333,895 in aggregate resulted in cash flows from our operating activities.

Cash used by operations of \$77,703 in 2014 was primarily due to net loss of \$498,000 and a decrease in accrued expenses payable of \$146,393. This was offset principally by non-cash expenses for depreciation, stock based compensation and loss on equity investment totaling \$304,830 and a decrease in accounts receivable of \$232,446.

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 periodically after services are performed, depending on the contract terms.

During 2015, 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 several 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. Our primary goal is to increase sales and generate cash flow from operations.

Cash Flows Used by Investing Activities

Cash used by investing activities was \$103,812 and \$68,966 during 2015 and 2014, respectively. In 2015, we invested \$100,000 to purchase the ÜberScan software to perform security assessments and incurred \$3,812 for capital expenditures for computer hardware and software.

Beginning in April 2015, we invested in software development and upgraded and added to the feature sets of our ÜberScan software to improve its future marketability. We also created a new cybersecurity product, ÜberGuard, that we began to market in late 2015. These software development costs were expensed as incurred. We expect to continue to invest in computer hardware and software to update our technology to support the growth of our business.

Cash used by investing activities for 2014 was \$68,966 which included capital expenditures for computer hardware and software of \$30,316. 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, we made equity investments in goSudo of \$30,000.

Cash Flows Provided by Financing Activities

Cash provided by financing activities was \$103,967 for 2015 as compared to \$137,490 for 2014. In 2015, we borrowed \$200,000 for working capital under our LOC agreement with a related party and \$25,000 from an executive officer. During 2015 and 2014, we made principal payments to related parties of \$68,896 and \$41,324, respectively, and payments on other notes payable of \$52,407 and \$21,186 respectively.

A convertible note payable for \$175,000 that was scheduled to mature on January 1, 2016 was extended to August 31, 2018. Our convertible related party notes payable for \$473,000 that were scheduled to mature on December 31, 2015 were extended to January 1, 2017.

Our current maturities of long-term debt obligations total \$278,979 at December 31, 2015 consisting of \$28,979 for contractual amounts due to the PBGC and our LOC agreement with a director and \$250,000 for maturing convertible notes. During 2016, we plan to evaluate alternatives which may include renegotiating the terms of the notes, seeking conversion of the notes to shares of common stock and seeking funds to repay the notes. We continue to evaluate repayment of other notes payable based on our cash flow.

Critical Accounting Policies and Estimates

There are several accounting policies that we believe are significant to the presentation of our financial statements. These policies require management to make complex or subjective judgments about matters that are inherently uncertain. Note 3 to our financial statements presents a summary of significant accounting policies. The most critical accounting policies follow.

Revenue Recognition

Our revenues are generated under both time and material and fixed price consulting agreements. Consulting revenue is recognized when the associated costs are incurred, which coincides with the consulting services being provided. Time and materials service agreements are based on hours worked and are billed at agreed upon hourly rates for the respective position plus other billable direct costs. Fixed price service agreements are based on a fixed amount of periodic billings for recurring services of a similar nature performed according to the contractual arrangements with clients. Under both types of agreements, the delivery of services occurs when an employee works on a specific project or assignment as stated in the contract or purchase order. Based on historical experience, we believe that collection is reasonably assured.

Client deposits received in advance are recorded as liabilities until associated services are completed. During 2015, sales to one client, including sales under subcontracts for services to several entities, accounted for 60.1% of total sales (compared to 60.2% in 2014) and 29.1% of accounts receivable at December 31, 2015 (compared to 27.8% at December 31, 2014). Sales to another client, which consisted of sales under subcontracts, accounted for 25.7% of sales in 2015 (compared to 30.7% in 2014) and 36.2% of accounts receivable at December 31, 2015 (compared to 49.6% at December 31, 2014).

Accounts Receivable Provisions

As part of the financial reporting process, management estimates and establishes reserves for potential credit losses relating to the collection of certain receivables. This analysis involves a degree of judgment regarding clients' ability and willingness to satisfy its obligations to us. These estimates are based on past history with clients and current circumstances. Management's failure to identify all factors involved in determining the collectability of an account receivable could result in bad debts in excess of reserves established.

Deferred Tax Asset Valuation and Income Taxes

Management calculates the future tax benefit relating to certain tax timing differences and available net operating losses and credits available to offset future taxable income. This deferred tax asset is then reduced by a valuation allowance if management believes it is more likely than not that all or some portion of the asset will not be realized. This estimate is based on historical profitability results, expected future performance and the expiration of certain tax attributes which give rise to the deferred tax asset. As of the balance sheet dates, a reserve has been established for the entire amount of the deferred tax asset. In the event, we generate future taxable income we will be able to utilize the net operating loss carry forwards subject to any utilization limitations. This will result in the realization of the deferred tax asset, which has been fully reserved. As a result, we would have to revise estimates of future profitability and determine if its valuation reserve requires downward adjustment.

At December 31, 2015, we had federal net operating loss carryforwards of approximately \$7,200,000 and various state net operating loss carryforwards of approximately \$2,400,000 which expire from 2018 through 2035. Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of the net operating loss carryforwards before utilization.

We periodically review tax positions taken to determine if any uncertainty exists related to those tax positions. We do not have any material unrecognized tax benefit at December 31, 2015. We recognize interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2015 and 2014, we recognized no interest and penalties.

Stock Option Awards

We apply the provisions of FASB ASC 718, "Compensation - Stock Compensation," and recognize compensation expense related to stock based payments over the requisite service period based on the grant date fair value of the awards. We use the Black-Scholes option pricing model to determine the estimated fair value of the awards.

The compensation cost that has been charged against income for options granted to employees under the plans was \$53,853 and \$110,340 for the years ended December 31, 2015 and 2014, respectively.

For stock options issued as non-ISO, a tax deduction is not allowed for income tax purposes until the options are exercised. The amount of this deduction will be the difference between the fair value of our common stock and the exercise price at the date of exercise. Accordingly, there is a deferred tax asset recorded for the tax effect of the financial statement expense recorded. The tax effect of the income tax deduction in excess of the financial statement expense will be recorded as an increase to additional paid-in capital. Due to the uncertainty of our ability to generate sufficient taxable income in the future to utilize the tax benefits of the options granted, we have recorded a valuation allowance to reduce its gross deferred tax asset to zero. As a result, for 2015 and 2014, there is no income tax expense impact from recording the fair value of options granted. No tax deduction is allowed for stock options issued as ISO's.

During 2015, we used volatility of 100% when computing the value of stock options and warrants. This is based on our historic volatility. The expected life of the options is assumed to 5.75 years using the simplified method for plain vanilla options as stated in FASB ASC 718-10-S99 to improve the accuracy of this assumption while simplifying record keeping requirements until more detailed information about exercise behavior is available. The expected dividend yield is zero percent. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant and ranged from 1.49% to 1.78% for 2015.

Equity Instruments Issued to Consultants and Vendors in Exchange for Goods and Services

Our accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 718, "Compensation - Stock Compensation". The measurement date for the fair value award of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. We use the Black-Scholes option-pricing model to determine the fair value of the awards. The fair value of the equity instrument is recognized over the term of the consulting agreement. We periodically evaluate the likelihood of reaching the performance requirements and recognize consulting expense over the expected term associated with these performance based awards once it is probable the consultants will achieve their performance criteria and the awards will become vested.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued expenses are reasonable 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

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 U.S. 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 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 adopted the standard as of December 31, 2015.

In April 2015, the FASB issued new accounting guidance on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a note be presented as a direct deduction from that note. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company does not believe this guidance will have a material effect on our financial statements when adopted.

In November 2015, the FASB issued new accounting guidance on the classification of deferred taxes. The new guidance requires that all deferred tax asset and liabilities be classified as noncurrent in a classified statement of financial position. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early application is permitted. When the guidance is effective all deferred tax assets and liabilities will be presented as noncurrent. The Company does not believe this guidance will have a material effect on our financial statements when adopted.

In February 2016, the FASB issued amended guidance for lease arrangements in order to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. The guidance, which is required to be adopted in the first quarter of 2019, will be applied on a modified retrospective basis beginning with the earliest period presented. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance on our financial statements.

Item 7A. 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 8. Financial Statements and Supplementary Data

The response to this item is submitted as a separate section of this report beginning on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) 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, our 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.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Infinite Group have been detected.

(b) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Our management has concluded that, as of December 31, 2015, our internal control over financial reporting was effective based on these criteria.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

On December 31, 2015, we entered into amendments to our notes payable of \$264,000 with Allan Robbins, a member of our board of directors until December 31, 2015, \$143,200 with Northwest Hampton Holdings, LLC, which is owned by our Chief Executive Officer and President, and \$9,000 with James Witzel, our Chief Financial Officer, that were scheduled to mature on January 1, 2016 to extend each note's maturity date to January 1, 2017.

On March 14, 2016, we entered into an unsecured financing agreement with a third party lender. The agreement provides for \$500,000 of working capital with three draws of \$200,000 on March 29, 2016, \$200,000 in July 1, 2016 and \$100,000 on October 1, 2016. Borrowings bear interest at 6% with interest due quarterly. Principal is due on December 31, 2021. Principal and interest may become immediately due and payable upon the occurrence of customary events of default. In consideration for providing the financing, we paid the lender a fee consisting of 2,500,000 shares of our common stock valued at \$37,500 on the date of the agreement based upon the closing bid quotation of our common stock on the OTC Bulletin Board on that date. The lender has piggy back registration rights for these shares. Our Chief Executive Officer and President agreed to guarantee the loan obligations if he is no longer an "affiliate" of the Company as defined by U.S. Securities and Exchange Commission rules.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Set forth below are the names, ages and positions of our executive officers and directors.

Name	Age	Position	Affiliated Since
James Villa (1)	58	Chairman of the Board, Chief Executive Officer and President	2003
Donald W. Reeve (1)	69	Director	2013
Andrew Hoyen	45	Chief Administrative Officer and Senior Vice President of Business Development	2014
James Witzel	62	Chief Financial Officer	2004

(1) Member of the audit and compensation committees.

Each director is elected for a period of one year and serves until his successor is duly elected and qualified. Officers are elected by and serve at the will of our Board.

Background

The principal occupation of each of our directors and executive officers for at least the past five years is as follows:

29

James Villa is our Chairman, President and Chief Executive Officer and a director. He became a director on July 1, 2008, our President on February 25, 2010, our Chairman of the Board on June 30, 2012, and our Chief Executive Officer on January 21, 2014. He is also chairman of the audit and compensation committees. Mr. Villa was our Acting Chief Executive Officer from December 31, 2010 to January 21, 2014. Since 2000, Mr. Villa has been the President of Intelligent Consulting Corporation (“ICC”). ICC provides business consulting services to public and privately held middle market companies and has provided consulting services to us from January 2003 through February 2010. Mr. Villa is employed on a full-time basis with us and brings to the Board his experience with us since 2003 as well as professional experience gained from his services to a variety of public and privately held middle market businesses.

Donald W. Reeve became a director on December 31, 2013. He has been the principal partner at ReTech Services, LLC, a management consulting practice since January 2013. Since August 2013, Mr. Reeve has been providing consulting services to us on a part time basis without cash compensation. Previously, Mr. Reeve was Senior Vice President and Chief Information Officer for Wegmans Food Markets, Inc. (Wegmans) from May 1986 until his retirement in August 2012. In that position, he managed an information technology staff of approximately 300 professionals with responsibilities for development, application and support services of computer technology. Prior to May 1986 and since 1970, he held various positions of increasing responsibility for Wegmans. He attended Monroe Community College and SUNY Empire State College, earned an associate's degree at Rochester Business Institute and is a veteran of the U.S. Army. Mr. Reeve brings to the Board the experience of managing the IT requirements for a growing company in a competitive environment. Mr. Reeve provides strategic guidance to the Board and our management as we continue to enter various commercial IT markets. He provided us with a \$400,000 line of credit in December 2014.

Andrew Hoyen was appointed Chief Administrative Officer and Senior Vice President of Business Development on October 1, 2014. Mr. Hoyen is responsible for working with other key executives to develop and implement the Company's strategic direction and marketing plans and improve performance through collaboration between sales and service delivery functions. Previously, since 2011, he was Vice President of National Accounts at Toyota Material Handling North America. Prior to that, from 2002 to 2011, he served in a number of executive roles in operations, service and sales at Eastman Kodak Company and their spin-off, Carestream Health. His last position at Carestream Health was Vice President of Sales and Service for the Northeast Region. He holds a Bachelor of Science degree in biotechnology from Worcester Polytechnic Institute, a Master of Public Health degree from State University of New York at Albany and a Master of Business Administration degree from Rochester Institute of Technology.

James Witzel was appointed as our Chief Financial Officer in May 2008. Mr. Witzel joined us in October 2004 as finance manager reporting to our then chief financial officer and assisted him with accounting, financial reporting, financial analyses, and various special projects. Prior to joining us, Mr. Witzel was a consultant providing accounting and management consulting services to a variety of companies. He has over 35 years of experience in accounting, financial reporting, and management. He has a Bachelor of Arts degree and a Master of Business Administration degree from the University of Rochester.

Committees of the Board of Directors

Our Board has an audit committee and a compensation committee. The audit committee reviews the scope and results of the audit and other services provided by our independent accountants and our internal controls. The compensation committee is responsible for the approval of compensation arrangements for our officers and the review of our compensation plans and policies. Each committee is comprised of Mr. Villa and Mr. Reeve.

Audit Committee Financial Expert

Our audit committee is comprised of Mr. Villa, as chairman, and Mr. Reeve. The Board has determined that Mr. Villa qualifies as our “audit committee financial expert,” as that term is defined in Item 407(d)(5) of Regulation S-K. Neither

Mr. Villa nor Mr. Reeve is independent for audit committee purposes under the definition contained in Section 10A(m)(3) of the Exchange Act.

30

Code of Ethics

We have adopted a code of business conduct and ethics that applies to our principal executive officer, principal financial officer and other persons performing similar functions, as well as all of our other employees and directors. This code of business conduct and ethics is posted on our website at www.IGIus.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on review of the copies of such forms furnished to us, or written representations that no Forms 5 were required, we believe that all required Section 16(a) filings were timely made for the year ended December 31, 2015. With respect to any of our former directors, officers, and greater than ten-percent stockholders, we have no knowledge of any known failure to comply with the filing requirements of Section 16(a).

Item 11. Executive Compensation

The Summary Compensation Table below includes, for each of the years ended December 31, 2015 and 2014, individual compensation for services to Infinite Group, Inc. paid to: (i) our Chief Executive Officer, our Chief Financial Officer and (ii) the next two other of our most highly paid executive officers whose total compensation exceeded \$100,000 for the year ended December 31, 2015 (together, the “Named Executives”).

Name and Principal Position	Year	Salary	Option Awards (1)	All Other Compensation (2)	Total
James Villa					
Chairman, President and Chief Executive Officer	2015	\$208,455	\$-	\$943	\$209,398
	2014	\$200,687	\$50,850	\$990	\$252,527
William S. Hogan					
Chief Operations Officer	2015	\$222,993	\$1,420	\$943	\$225,356
	2014	\$214,687	\$-	\$375	\$215,062
Andrew Hoyen					
Chief Administrative Officer and Senior Vice President of Business Development (3)	2015	\$204,993	\$-	\$329	\$205,322
	2014	\$39,863	\$12,900	\$25	\$52,788
James Witzel					
Chief Financial Officer	2015	\$156,429	\$1,420	\$1,447	\$159,296
	2014	\$150,597	\$25,267	\$375	\$176,239

(1)

The amounts in this column reflect the grant date fair value for stock option awards granted during the year and do not reflect whether the recipient has actually realized a financial gain from such awards such as by exercising stock options. The fair value of the stock option awards was determined using the Black-Scholes option pricing model. See the Critical Accounting Policies “Stock Option Awards” in this report regarding assumptions underlying valuation of equity awards.

(2)

Reflects life insurance premiums paid by the Company.

(3)

Employment commenced on October 1, 2014.

31

Stock Options

The following table provides information with respect to the value of all unexercised options previously awarded to our Named Executives as of December 31, 2015.

Name	Number of Securities Underlying Unexercised Options - Exercisable	Number of Securities Underlying Unexercised Options - Unexercisable	Option Exercise Price	Option Expiration Date
James Villa	333,333	166,667	\$.115	1/20/2024
Andrew Hoyen	200,000	300,000	\$.04	11/30/2019
James Witzel	50,000	-	\$.37	4/10/2016
	50,000	-	\$.67	7/27/2018
	25,000	-	\$.16	2/4/2019
	300,000	-	\$.145	6/17/2020
	473,000	-	\$.093	8/11/2021
	140,000	70,000	\$.115	1/20/2024
	100,000	-	\$.05	12/30/2024
	40,000	-	\$.05	3/2/2025

Employment Agreements

We do not have any employment agreements with any of the Named Executives.

Compensation of Directors

We do not pay any directors' fees. Directors are reimbursed for the costs relating to attending Board and committee meetings.

At December 31, 2015, Donald W. Reeve held options (i) immediately exercisable for 600,000 shares of our common stock at an exercise price of \$.05 per share which expires on November 30, 2024 and (ii) 500,000 shares of our common stock at an exercise price of \$.15 per share which expires on September 4, 2023. Options for 100,000 shares vested immediately on the September 4, 2013 grant date with the balance vesting in equal annual installments of 100,000 through September 4, 2017. On December 1, 2014, the Company entered into an unsecured line of credit financing agreement with Mr. Reeve. The Company paid an origination fee consisting of (i) 600,000 shares of its common stock valued at \$30,000 and (ii) options to purchase 600,000 shares of its common stock at an exercise price of \$.05 valued at \$23,400 using the Black-Scholes option-pricing model all of which were immediately vested.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding the beneficial ownership of our common stock, our only class of voting securities, as of March 21, 2016 by:

each person known to us to be the beneficial owner of more than 5% of our outstanding shares;

each of our directors;

each Named Executive named in the Summary Compensation Table above; and

all of our directors and executive officers as a group.

Edgar Filing: INFINITE GROUP INC - Form 10-K

Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of common stock owned by them. All information with respect to beneficial ownership has been furnished to us by the respective stockholder. The address of record of each individual listed in this table, except if set forth below, is c/o Infinite Group, Inc., 80 Office Park Way, Pittsford, New York 14534.

Name of Beneficial Owner (1)	Shares of Common Stock Beneficially Owned (1)	Percentage of Ownership
Donald W. Reeve	1,510,000(3)	5.5%
James Villa	4,674,796(4)	15.0%
Andrew Hoyen	505,000(5)	1.9%
James Witzel	1,798,980(6)	6.4%
All Directors and Officers (4 persons) as a group	8,488,776(2)	24.9%
5% Stockholders:		
Paul J. Delmore One America Place 600 West Broadway, 28th Floor San Diego, CA 92101	2,367,000(7)	8.9%
Allan M. Robbins 44 Hampstead Drive Webster, NY 14580	11,260,490(8)	30.6%
David N. Slavny c/o Infinite Group, Inc. 80 Office Park Way Pittsford, New York 14534	2,367,320(9)	8.4%

(1) Pursuant to the rules of the Securities and Exchange Commission, shares of common stock include shares for which the individual, directly or indirectly, has voting or shares voting or disposition power, whether or not they are held for the individual's benefit, and shares which an individual or group has a right to acquire within 60 days from March 21, 2016 pursuant to the exercise of options or upon the conversion of securities are deemed to be outstanding for the purpose of computing the percent of ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. On March 21, 2016, we had 26,561,883 shares of common stock outstanding.

(2) Assumes that all currently exercisable options and convertible securities owned by members of the group have been exercised.

(3) Includes 900,000 shares subject to currently exercisable options.

(4) Includes 4,174,796 shares, which are issuable upon the conversion of notes to Northwest Hampton Holdings, LLC, whose sole member is James Villa, including principal in the amount of \$146,300 and accrued interest in the amount of \$62,440 through March 21, 2016; and 500,000 shares subject to currently exercisable options.

(5)

Includes 250,000 shares, which are issuable upon the conversion of a note principal in the amount of \$25,000 through March 21, 2016; and 200,000 shares subject to currently exercisable options.

(6)

Includes 272,965 shares, which are issuable upon the conversion of notes including principal in the amount of \$9,000 and accrued interest in the amount of \$4,651 through March 21, 2016; and 1,248,000 shares subject to currently exercisable options.

(7)

Includes 2,360,000 shares owned of record by Upstate Holding Group, LLC, an entity wholly-owned by Mr. Delmore.

(8)

Includes 10,235,490 shares, which are issuable upon the conversion of the notes including principal in the amount of \$304,000 and accrued interest in the amount of \$225,593 through March 21, 2016; and 25,000 shares subject to currently exercisable options.

(9)

Includes 615,000 common shares held by David N. Slavny, our director of business development, 1,500,000 shares subject to currently exercisable options granted to Mr. Slavny, and 252,320 shares which are issuable upon the conversion of notes payable to David N. and Leah Slavny in the principal amount of \$40,150 and accrued interest in the amount of \$221 through March 21, 2016. Excludes 939,500 shares held by the David N. Slavny Family Trust for which David N. Slavny disclaims beneficial interest.

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2015, an aggregate of 768,000 shares were available under our 2009 stock option plan (the “2009 Plan”) for option grants. The 1996, 1997, 1998, 1999, and 2005 Plans have expired.

The 2009 Plan was established in February 2009 to align the interests of our employees, consultants, agents and affiliates with those of our stockholders for the purpose of incentivizing them to increase their efforts on our behalf and to promote the success of our business. Under the 2009 Plan up to 4,000,000 shares of common stock were authorized for option grants. The 2009 Plan expires in February 2019. Generally, the 2009 Plan is administered by the compensation committee of the Board and provides (i) for the granting of non-qualified stock options, (ii) that the maximum term for options granted under the plan is 10 years and (iii) that the exercise price for the options may not be less than 100% of the fair market value of our common stock on the date of grant.

The following table summarizes as of December 31, 2015 the (i) options granted under our option plans and (ii) all other securities subject to contracts, options, warrants, and rights or authorized for future issuance outside of our plans. The shares covered by outstanding options or authorized for future issuance are subject to adjustment for changes in capitalization stock splits, stock dividends and similar events.

	Equity Compensation Plan Table		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans previously approved by security holders (1)	2,436,500	\$.27	-
Equity compensation plans not previously approved by security holders (2)	3,232,000	\$.11	768,000
Individual option grants that have not been approved by security holders (3)	2,775,000	\$.13	-
Total	8,443,500	\$.16	768,000

(1)

Consists of grants under our 1996, 1997, 1998, 1999, and 2005 Stock Option Plans of which 2,089,833 are exercisable at December 31, 2015.

(2)

Consists of grants under our 2009 Plan of which 2,858,667 are exercisable at December 31, 2015.

(3)

Consists of individual option grants approved by the Board for an aggregate of 2,775,000 common shares of which 1,225,000 are exercisable at December 31, 2015.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Officers, Directors and Equity Investment

We are obligated under a convertible note payable to Northwest Hampton Holdings, LLC (“Northwest”). James Villa, our CEO and President, is the sole member of Northwest. At March 21, 2016, Northwest is the holder of a convertible note bearing interest at 6% with principal of \$146,300 and convertible accrued interest of \$62,440 which matures on January 1, 2017 and is convertible into shares of our common stock at a conversion price of \$.05 per share for a total of 4,174,796 shares. Principal of \$203,324 was reduced by payments of \$53,700 during 2015 and \$3,324 during 2014 on this note. Interest of \$900 and \$21,874 was paid and during 2015 and 2014, respectively. During 2014, we paid off a note payable of \$25,000 and paid related accrued interest of \$3,749 to Northwest.

At March 21, 2016, Mr. James Witzel, our Chief Financial Officer, is the holder of a convertible note bearing interest at 6%, with principal of \$9,000 and convertible accrued interest of \$4,528 which matures on January 1, 2017 and is convertible into shares of our common stock at a conversion price of \$.05 per share for a total of 273,015 shares.

The interest rates on the aforementioned notes payable to Northwest and Mr. Witzel (collectively, the “Notes”) are adjusted annually, on January 1st of each year, to a rate equal to the prime rate in effect on December 31st of the immediately preceding year, plus one and one quarter percent, but in no event less than 6% per annum. The Notes are secured by a security interest in all our assets.

Generally, upon notice, prior to the maturity date, note holders can convert all or a portion of the outstanding principal on the Notes. However, the Notes are not convertible into shares of our common stock to the extent conversion would result in a change of control which would limit the use of our net operating loss carryforwards; provided, however, this limitation will not apply if we close a transaction with another third party or parties that results in a change of control which will limit the use of our net operating loss carryforwards.

Prior to any conversion, the holders of the Notes are entitled to convert their Notes, on a pari passu basis and upon any such participation the requesting note holder shall proportionately adjust his conversion request such that, in the aggregate, a change of control, which will limit the use of our net operating loss carryforwards, does not occur; provided, however, the right to participate is only available to a noteholder if his Note is then convertible into 5% or more of our common stock.

On December 1, 2014, we entered into an unsecured line of credit financing agreement with Mr. Donald W. Reeve, a member of our board of directors which provides for working capital of up to \$400,000 through December 31, 2017. We paid an origination fee consisting of (i) 600,000 shares of our common stock valued at \$30,000 and (ii) options to purchase 600,000 shares of our common stock at an exercise price of \$.05 valued at \$23,400 using the Black-Scholes option-pricing model all of which were immediately vested. The note balance was \$394,028 at December 31, 2015 and March 21, 2016 with interest at 6.35% payable monthly in arrears.

On February 12, 2015, we issued a note payable to Mr. Andrew Hoyen, our Chief Administrative Officer and Senior Vice President of Business Development, in the principal amount of \$25,000 with interest at 7% per annum which matures on March 31, 2018. At the election of the holder, the principal of the note is convertible into shares of our common stock at a conversion price of \$.10 per share for a total of 250,000 shares.

Between June 1, 2012 and September 30, 2015, we provided software development and management services to goSudo. These services were provided on a “cost-plus” basis, but were provided on more favorable terms than our usual and customary rates charged to our customers. Through June 30, 2016 we sublease 2,500 of our leased office space to goSudo at the same terms as our lease at annual rent of \$18,097. During 2015, we purchased software development services from goSudo at prices that approximated goSudo’s direct cost.

During 2014 and 2013, we purchased 300,000 shares of the authorized but unissued shares of Series A stock of goSudo for an aggregate purchase price of \$300,000 pursuant to the terms and conditions of a preferred stock purchase agreement. As a result, at December 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 source of funds consisted of settlement of accounts receivable of \$114,167 due from goSudo and cash of \$185,833.

During 2015, the investment in goSudo was written down using the equity method because of the net losses recorded by goSudo. In addition, the remaining carrying value of the investment was considered impaired at September 30, 2015 due to continued net losses of goSudo. During 2015, the accounts receivable balance of \$110,000 due from goSudo was converted to a demand note with interest at 10% and was fully reserved upon conversion, due to continued net losses of goSudo. As a result, a loss on investment of \$109,000 and bad debt expense of \$110,000 were recorded during 2015. During the year 2014, the investment was written down by \$168,000 consisting of \$68,000 equity interest in the net losses of goSudo and an impairment loss of \$100,000.

From 2012 through 2015, Mr. Villa made loans to goSudo and during 2013 converted loans into goSudo Series A stock. In addition, Mr. Villa is one of four members of the board of directors of goSudo, holds the position of President of goSudo and is active in managing goSudo's business. As a result of the foregoing, we are deemed to have significant influence upon goSudo's policy and operating decisions.

David N. Slavny

At March 21, 2016, David N. Slavny, our Director of Business Development and a beneficial owner of approximately 8.4% of our outstanding common stock, held a convertible demand note accruing interest at 11% per. Principal of \$59,000 was reduced by payments of \$18,850 during 2015 on this note. Interest of \$10,776 and \$1,636 was paid during 2015 and 2014, respectively. At March 21, 2016, the outstanding principal of \$40,150 and accrued interest of \$221 is convertible into shares of our common stock at a conversion price of \$.16 per share for a total of 252,320 shares.

Director Independence

Our Board has determined that Donald Reeve is "independent" in accordance with the NASDAQ's independence standards. Our audit and compensation committees consist of Mr. Villa and Mr. Reeve, of which only Mr. Reeve is sufficiently independent for compensation committee purposes under NASDAQ's standards and neither of them is sufficiently independent for audit committee purposes under NASDAQ's standards by virtue of their respective beneficial ownership of our common stock.

Item 14. Principal Accountant Fees and Services

The aggregate fees billed by our principal accounting firm, Freed Maxick CPAs, P.C. for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Audit fees	\$83,000	\$80,000
Audit related fees	-	-
Total audit and audit related fees	\$83,000	\$80,000

Audit fees for 2015 and 2014 were for professional services rendered for the audits of our annual financial statements and reviews of the financial statements included in our Quarterly Reports on Form 10-Q. There were no tax or other

non-audit related services provided by the independent accountants for 2015 and 2014.

As a matter of policy, each permitted non-audit service is pre-approved by the audit committee or the audit committee's chairman pursuant to delegated authority by the audit committee, other than de minimus non-audit services for which the pre-approval requirements are waived in accordance with the rules and regulations of the SEC.

Audit Committee Pre-Approval Policies and Procedures

The audit committee charter provides that the audit committee will pre-approve audit services and non-audit services to be provided by our independent auditors before the accountant is engaged to render these services. The audit committee may consult with management in the decision-making process, but may not delegate this authority to management. The audit committee may delegate its authority to pre-approve services to one or more committee members, provided that the designees present the pre-approvals to the full committee at the next committee meeting.

36

Item 15. Exhibits and Financial Statement Schedules

(a)

The following documents are filed as part of this report:

(1) Financial Statements – See the Index to the financial statements on page F-1.

(b) Exhibits:

Exhibit

No.	Description
3.1	Certificate of Incorporation of the Company dated April 29, 1993. (1)
3.2	Certificate of Amendment of Certificate of Incorporation dated December 31, 1997. (3)
3.3	Certificate of Amendment of Certificate of Incorporation dated February 3, 1999. (4)
3.4	Certificate of Amendment of Certificate of Incorporation dated February 28, 2006. (6)
3.5	By-Laws of the Company. (1)
4.1	Specimen Stock Certificate. (1)
10.1	**2005 Stock Option Plan. (2)
10.2	**2009 Stock Option Plan. (9)
10.3	Form of Stock Option Agreement. (1)
10.4	Promissory Note dated August 13, 2003 in favor of Carle C. Conway. (5)
10.5	Promissory Note dated January 16, 2004 in favor of Carle C. Conway. (5)
10.6	Promissory Note dated March 11, 2004 in favor of Carle C. Conway. (5)
10.7	Promissory Note dated December 31, 2003 in favor of Northwest Hampton Holdings, LLC. (5)
10.8	Modification Agreement No. 3 to Promissory Notes between Northwest Hampton Holdings, LLC and the Company dated October 1, 2005. (6)
10.9	Modification Agreement No. 3 to Promissory Notes between Allan Robbins and the Company dated October 1, 2005. (6)
10.10	Modification Agreement to Promissory Notes between the Company and Carle C. Conway dated December 31, 2005. (6)
10.11	Promissory Note dated December 31, 2005 in favor of David N. Slavny and Leah A. Slavny. (6)
10.12	Collateral Security Agreement between the Company and David N. Slavny and Leah A. Slavny dated December 31, 2005. (6)
10.13	Modification Agreement to Promissory Note between Northwest Hampton Holdings, LLC and the Company dated December 6, 2005. (6)
10.14	Collateral Security Agreement between the Company and Northwest Hampton Holdings, LLC dated February 15, 2006. (6)
10.15	Collateral Security Agreement between the Company and Allan Robbins dated February 15, 2006. (6)
10.16	Purchase and Sale Agreement between the Company and Amerisource Funding, Inc. dated May 21, 2004. (7)
10.17	Account Modification Agreement between the Company and Amerisource Funding, Inc. dated August 5, 2005. (7)
10.18	Promissory Note dated June 13, 2008 in favor of Dan Cappa. (9)
10.19	Modification Agreement to Promissory Notes between the Company and David N. Slavny and Leah A. Slavny dated February 6, 2009. (9)
10.20	Promissory Note between Northwest Hampton Holdings, LLC and the Company dated September 30, 2009. (10)
10.21	Modification Agreement to Promissory Notes between the Company and Carle C. Conway dated December 31, 2009. (10)
10.22	Demand Promissory Note between Allan M. Robbins and the Company dated August 13, 2010. (12)
10.23	Settlement Agreement between the Company and the PBGC, effective as of September 1, 2011. (14)
10.24	

Edgar Filing: INFINITE GROUP INC - Form 10-K

- Agreement for Appointment of Trustee and Termination of Plan between the Company and the PBGC, effective as of November 1, 2011. (15)
- 10.25 Promissory Note in favor of the PBGC dated October 17, 2011. (15)
- 10.26 Modification Agreement to Promissory notes between the Company and Carle C. Conway dated December 31, 2012. (16)
- 10.27 Line of Credit Note Agreement between the Company and Donald W. Reeve dated December 1, 2014. (17)
- 10.28 Stock Option Agreement between the Company and Donald W. Reeve dated September 5, 2013. (18)
- 10.29 Stock Option Agreement between the Company and Donald W. Reeve dated December 1, 2014. (17)
- 10.30 Software Assets Purchase Agreement between the Company and UberScan, LLC and Christopher B. Karr and Duane Pfeiffer. (18) #
- 10.31 Promissory Note and Security Agreement between the Company and UberScan, LLC. (18)
- 10.32 Modification Agreement to Promissory Notes between the Company and Carle C. Conway dated December 31, 2014. (18)
- 10.33 Promissory Note between Andrew Hoyen and the Company dated February 12, 2015. (18)
- 10.34 Amendment to Promissory Note between the Company and Dan Cappa dated August 24, 2015. (19)
- 10.35 Amendment to Promissory Note between the Company and UberScan, LLC dated October 6, 2015. (19)
- 10.36 Amendment to Promissory Note between the Company and Allan Robbins dated December 31, 2015 *
- 10.37 Amendment to Promissory Note between the Company and Northwest Hampton Holdings, LLC dated December 31, 2015 *
- 10.38 Line of Credit Note and Agreement between the Company and James Leonardo Managing Member of a Limited Liability Corporation to be formed dated March 14, 2016 *
- 23.1 Consent of Freed Maxick CPAs, P.C., independent registered public accounting firm*
- 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.*

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.

**Management contract or compensatory plan or arrangement.

Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. Omitted portions have been filed separately with the SEC.

37

(1)
Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (File #33- 61856) and incorporated herein by reference.

(2)
Incorporated by reference to Appendix II of the Company's DEF14A filed on February 1, 2006.

(3)
Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1997.

(4)
Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998.

(5)
Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.

(6)
Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.

(7)
Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006.

(8)
Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007.

(9)
Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

(10)
Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

(11)
Incorporated by reference to the Company's Quarter Report on Form 10-Q for the quarterly period ended June 30, 2010.

(12)
Incorporated by reference to the Company's Quarter Report on Form 10-Q for the quarterly period ended September 30, 2010.

(13)
Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

(14)
Incorporated by reference to the Company's Current Report on Form 8-K filed on September 12, 2011.

(15)
Incorporated by reference to the Company's Current Report on Form 8-K filed on November 7, 2011.

(16)
Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

(17)
Incorporated by reference to the Company's Current Report on Form 8-K filed on December 4, 2014.

(18)

Edgar Filing: INFINITE GROUP INC - Form 10-K

Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(19)

Incorporated by reference to the Company's Quarter Report on Form 10-Q for the quarterly period ended September 30, 2015.

(b)

Information required by schedules called for under Regulation S-X is either not applicable or is included in the financial statements or notes thereto.

38

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Infinite Group, Inc.

Date: April 14, 2016 By: /s/ James Villa
James Villa, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ James Villa		
James Villa	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	April 14, 2016
/s/ James Witzel		
James Witzel	Chief Financial Officer (Principal Financial and Accounting Officer)	April 14, 2016
/s/ Donald W. Reeve		
Donald W. Reeve	Director	April 14, 2016

FINANCIAL STATEMENTS

INFINITE GROUP, INC.

DECEMBER 31, 2015

with

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

INFINITE GROUP, INC.

CONTENTS

	Page
Report of Independent Registered Public Accounting Firm	F-1
Financial Statements:	
Balance Sheets	F-2
Statements of Operations	F-3
Statements of Stockholders' Deficiency	F-4
Statements of Cash Flows	F-5
Notes to Financial Statements	F-6 - F-14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Infinite Group, Inc.

We have audited the accompanying balance sheets of Infinite Group, Inc. as of December 31, 2015 and 2014, and the related statements of operations, stockholders' deficiency, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Infinite Group, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, has negative working capital, a stockholders' deficiency, and will be dependent on obtaining future financing. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

/s/ Freed Maxick CPAs, P.C.

Buffalo, New York
April 14, 2016

INFINITE GROUP, INC.

BALANCE SHEETS

____ _December 31,____

2015 2014

ASSETS

Current assets:

Cash	\$13,510	\$7,768
Accounts receivable, net of allowances of \$70,000	117,010	359,599
Prepaid expenses and deferred charges, net	34,948	43,654
Total current assets	165,468	411,021
Property and equipment, net	39,273	60,039
Software, net	153,000	0
Investment	0	109,000
Deposits and deferred charges, net	19,637	36,956
	\$377,378	\$617,016

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current liabilities:

Accounts payable	\$501,588	\$341,977
Accrued payroll	192,246	148,918
Accrued interest payable	583,005	503,014
Accrued retirement	216,913	208,449
Accrued expenses - other	101,388	58,888
Current maturities of long-term obligations	262,000	14,388
Current maturities of long-term obligations - related party	16,979	8,172
Notes payable	72,000	30,000
Notes payable - related parties	119,776	129,000
Total current liabilities	2,065,895	1,442,806

Long-term obligations:

Notes payable:

Banks and other	1,246,999	1,509,018
Related parties	821,349	664,828

Total liabilities	4,134,243	3,616,652
-------------------	-----------	-----------

Commitments (Note 14)

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	30,476,095	30,422,242
Accumulated deficit	(34,259,521)	(33,448,439)
Total stockholders' deficiency	(3,756,865)	(2,999,636)
	\$377,378	\$617,016

See notes to financial statements.

INFINITE GROUP, INC.

STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2015	2014
Sales	\$7,945,921	\$8,567,736
Cost of sales	5,994,857	6,386,182
Gross profit	1,951,064	2,181,554
Costs and expenses:		
General and administrative	1,518,958	1,302,329
Selling	887,445	930,897
Total costs and expenses	2,406,403	2,233,226
Operating loss	(455,339)	(51,672)
Loss on investment	(109,000)	(168,000)
Interest expense:		
Related parties	(78,403)	(48,735)
Other	(168,340)	(229,593)
Total interest expense	(246,743)	(278,328)
Net loss	\$(811,082)	\$(498,000)
Net loss per share – basic and diluted	\$(.03)	\$(.02)
Weighted average shares outstanding – basic and diluted	26,561,883	26,012,842

See notes to financial statements.

INFINITE GROUP, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIENCY

Years Ended December 31, 2015 and 2014

	Common Stock		Additional		Total
	Shares	Amount	Paid-in Capital	Accumulated Deficit	
Balance - December 31, 2013	25,961,883	\$25,961	\$30,259,102	\$(32,950,439)	\$(2,665,376)
Stock based compensation	0	0	110,340	0	110,340
Shares issued as origination fee	600,000	600	29,400	0	30,000
Stock options issued as origination fee	0	0	23,400	0	23,400
Net loss	0	0	0	(498,000)	(498,000)
Balance - December 31, 2014	26,561,883	\$26,561	\$30,422,242	(33,448,439)	\$(2,999,636)
Stock based compensation	0	0	53,853	0	53,853
Net loss	0	0	0	(811,082)	(811,082)
Balance - December 31, 2015	26,561,883	\$26,561	\$30,476,095	\$(34,259,521)	\$(3,756,865)

See notes to financial statements.

F-4

INFINITE GROUP, INC.

STATEMENTS OF CASH FLOWS

Years Ended
December 31,

2015 2014

Cash flows from operating activities:

Net loss	\$(811,082)	\$(498,000)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Stock based compensation	53,853	110,340
Depreciation and amortization	68,897	26,490
Bad debt expense on note receivable	110,000	0
Loss on investment	109,000	168,000
(Increase) decrease in assets:		
Accounts receivable	132,589	232,446
Prepaid expenses and other assets	8,705	(3,823)
Increase (decrease) in liabilities:		
Accounts payable	159,612	25,104
Accrued expenses	165,819	(146,393)
Accrued retirement	8,464	8,133
Net cash provided (used) by operating activities	5,857	(77,703)

Cash flows from investing activities:

Purchase of software	(100,000)	0
Purchases of property and equipment	(3,812)	(38,966)
Investment in equity securities	0	(30,000)
Net cash used by investing activities	(103,812)	(68,966)

Cash flows from financing activities:

Repayments of notes payable	(52,407)	(21,186)
Proceeds from note payable - related parties	225,000	200,000
Repayments of notes payable - related parties	(68,896)	(41,324)
Net cash provided by financing activities	103,697	137,490

Edgar Filing: INFINITE GROUP INC - Form 10-K

Net increase (decrease) in cash	5,742	(9,179)
Cash - beginning of year	7,768	16,947
Cash - end of year	\$13,510	\$7,768

Supplemental Disclosures of Cash Flow Information:

Cash payments for:

Interest	\$151,589	\$234,266
Income taxes	\$0	\$0

See notes to financial statements.

F-5

INFINITE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. – BASIS OF PRESENTATION

The accompanying financial statements consist of the financial statements of Infinite Group, Inc. (the Company).

The Company operates in one segment, the field of information technology (IT) consulting services, with all operations based in the United States. There were no sales from customers in foreign countries during 2015 and 2014 and all assets are located in the United States. Certain projects required employees to travel to foreign countries during 2015 and 2014.

NOTE 2. - MANAGEMENT PLANS

The Company reported net losses of \$811,082 in 2015 and \$498,000 in 2014 and stockholders' deficiencies of \$3,756,865 and \$2,999,636 at December 31, 2015 and 2014, respectively. Accordingly, there is substantial doubt about the Company's ability to continue as a going concern through April 14, 2017.

The Company's business strategy is summarized as follows.

On October 1, 2014, the Company hired an executive officer, Chief Administrative Officer and Senior Vice President of Business Development, who is responsible for working with other key executives to develop and implement the Company's strategic direction and marketing plans and improve performance through collaboration between sales and service delivery functions.

During 2014, the Company performed vulnerability and security configurations scans against internal and external networks using proprietary software. In February 2015, the Company purchased this software known as UberScan and hired a Director of CyberSecurity who has expertise in designing, developing, marketing, and selling network security assessment software and project assessments using UberScan (see Note 5). The Company provides technical and executive summary reports of ongoing risks, identifies and prioritizes security vulnerabilities and communicates remediation recommendations. During 2015, the Company developed new software that had many of the functions of ÜberScan but with additional features and functionality. The new product, ÜberGuard is a cybersecurity vulnerability management solution for small and medium sized businesses (SMBs). The Company began to market this product in late 2015.

The Company plans include continuing to provide cloud related IT managed services and solutions and continuing to expand into the commercial sector including the SMB space. The Company also reviews potential acquisitions of IT assets and businesses. The Company is committed to remaining on the leading edge of technologies and trends in the IT service sector. The Company's ability to succeed may depend on how successful it is in differentiating itself from competition at a time when competition in these markets is on the rise.

The Company's strategy is to build its business by delivering a wide range of IT solutions and services that address challenges common to many U.S. Government agencies, state and local governments and commercial companies including SMBs. The Company believes that its core strengths position the Company to respond to the long-term trends and changing demands of the IT markets.

The Company has established four pillars or business groups to focus on:

Cybersecurity bringing innovative solutions to market such as ÜberGuard and performing cybersecurity projects;

The commercial SMB market by bringing IT solutions to the Company's channel partners such as Webroot, which provides endpoint and mobile protection and cloud backup solutions, and ÜberStore, a cloud-based backup and recovery solution;

Managed services by providing optimization and continuity planning, operational support services, internal automation, platform management as a service, virtualization services, and management of server, network and mobile devices; and

Product development including on demand software engineering and development of proprietary products to fit current customer needs.

Continue to Improve Operations and Capital Resources

The Company's goal is to increase sales and generate cash flow from operations on a consistent basis. The Company used ISO 9001-2008 practices as a tool for improvement that has aided expense reduction and internal performance.

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. The Company plans to raise additional capital during 2016 to build the infrastructure to market its new ÜberGuard cyber security product. Further, the Company's business plans require improving the results of its operations in future periods.

On December 1, 2014, the Company entered into an unsecured line of credit financing agreement (the "LOC Agreement") with a member of its board of directors. The LOC Agreement provides for working capital of up to \$400,000 through December 31, 2017. Although the Company has no assurances, the Company believes that related parties, who have previously provided working capital, and third parties 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.

On March 14, 2016, the Company entered into an unsecured financing agreement with a third party lender to provide working capital of \$500,000 as discussed in Note 17.

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.

NOTE 3. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable - Credit is granted to substantially all customers throughout the United States. The Company carries its accounts receivable at invoice amount, less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. The Company's policy is to not accrue interest on past due receivables. Management determined that an allowance of \$70,000 for doubtful accounts was reasonably stated at December 31, 2015 and 2014.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentration of credit risk consist of cash accounts in financial institutions. The cash accounts occasionally exceed the federally insured deposit amount; however, management does not anticipate nonperformance by financial institutions. Management reviews the financial viability of these institutions on a periodic basis.

Loan Origination Fees – The Company capitalizes the costs of loan origination fees and amortizes the fees as interest expense over the contractual life of each agreement.

Sale of Certain Accounts Receivable - The Company has available a financing line with a financial institution (the Purchaser). In connection with this line of credit the Company adopted FASB ASC 860 “Transfers and Servicing”. FASB ASC 860 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. The Company has a factoring line with the Purchaser which enables the Company to sell selected accounts receivable invoices to the Purchaser with full recourse against the Company.

These transactions qualify for a sale of assets since (1) the Company has transferred all of its right, title and interest in the selected accounts receivable invoices to the financial institution, (2) the Purchaser may pledge, sell or transfer the selected accounts receivable invoices, and (3) the Company has no effective control over the selected accounts receivable invoices since it is not entitled to or obligated to repurchase or redeem the invoices before their maturity and it does not have the ability to unilaterally cause the Purchaser to return the invoices. Under FASB ASC 860, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

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 7.5% at December 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 at that time. 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 year ended December 31, 2015, the Company sold approximately \$7,065,000 (\$8,299,000 - 2014) of its accounts receivable to the Purchaser. As of December 31, 2015, \$566,561 (\$874,458 - 2014) of these receivables remained outstanding. Additionally, as of December 31, 2015, the Company had approximately \$20,000 available under the financing line with the financial institution (\$140,000 – 2014). After deducting estimated fees and advances from the Purchaser, the net receivable from the Purchaser amounted to \$82,341 at December 31, 2015 (\$149,573 - 2014), and is included in accounts receivable in the accompanying balance sheets as of that date.

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 \$79,000 for the year ended December 31, 2015 (\$144,000 - 2014). These financing line fees are classified on the statements of operations as interest expense.

Property and Equipment - Property and equipment are recorded at cost and are depreciated over their estimated useful lives for financial statement purposes. The cost of improvements to leased properties is amortized over the shorter of the lease term or the life of the improvement. Maintenance and repairs are charged to expense as incurred while improvements are capitalized.

Accounting for the Impairment or Disposal of Long-Lived Assets - The Company follows provisions of FASB ASC 360 "Property, Plant and Equipment" in accounting for the impairment or disposal of long-lived assets. This standard specifies, among other things, that long-lived assets are to be reviewed for potential impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. The Company determined that there was no impairment of long-lived assets during 2015 and 2014.

Revenue Recognition - The Company's revenues are generated under both time and material and fixed price agreements. Consulting revenue is recognized when the associated costs are incurred, which coincides with the consulting services being provided. Time and materials service agreements are based on hours worked and are billed at agreed upon hourly rates for the respective position plus other billable direct costs. Fixed price service agreements are based on a fixed amount of periodic billings for recurring services of a similar nature performed according to the contractual arrangements with clients. Under both types of agreements, the delivery of services occurs when an employee works on a specific project or assignment as stated in the contract or purchase order. Based on historical experience, the Company believes that collection is reasonably assured.

During 2015, sales to one client, including sales under subcontracts for services to several entities, accounted for 60.1% of total sales (60.2% - 2014) and 29.1% of accounts receivable at December 31, 2015 (27.8% - 2014). Sales to another client, which consisted of sales under subcontracts, accounted for 25.7% of sales in 2015 (30.7% - 2014) and 36.2% of accounts receivable at December 31, 2015 (49.6% - 2014).

Equity Instruments - For equity instruments issued to consultants and vendors in exchange for goods and services the Company follows the provisions of FASB ASC 718 "Compensation – Stock Compensation." The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

Stock Options - The Company recognizes compensation expense related to stock based payments over the requisite service period based on the grant date fair value of the awards. The Company uses the Black-Scholes option pricing model to determine the estimated fair value of the awards.

Income Taxes - The Company accounts for income tax expense in accordance with FASB ASC 740 "Income Taxes." Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company reviews tax positions taken to determine if it is more likely than not that the position would be sustained upon examination resulting in an uncertain tax position. The Company did not have any material unrecognized tax benefit at December 31, 2015 or 2014. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2015 and 2014, the Company recognized no interest and penalties.

The Company files U.S. federal tax returns and tax returns in various states. The tax years 2012 through 2015 remain open to examination by the taxing jurisdictions to which the Company is subject.

Fair Value of Financial Instruments - The Company has determined the fair value of debt and other financial instruments using a valuation hierarchy. The hierarchy, which prioritizes the inputs used in measuring fair value, consists of three levels.

Level 1 uses observable inputs such as quoted prices in active markets;

Level 2 uses inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, which is defined as unobservable inputs in which little or no market data exists, requires the Company to develop its own assumptions.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The carrying amounts of cash, accounts receivable and accounts payable and accrued expenses are reasonable estimates of their fair value due to their short maturity. Based on the borrowing rates currently available to the Company for loans similar to its term debt and notes payable, the fair value approximates its carrying amount.

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 year, 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 as of December 31, 2015 and 2014:

Year ended December 31,

2015	2014
------	------

Numerator for basic net loss per share:

Net loss	\$(811,082)	\$(498,000)
Denominator for basic net loss per share:		
Weighted average common shares outstanding	26,561,883	26,012,842
Basic net loss per share	\$(.03)	\$(.02)

Numerator for diluted net loss per share:

Net loss	\$(811,082)	\$(498,000)
Denominator for diluted net loss per share:		
Weighted average common shares outstanding	26,561,883	26,012,842
Diluted net loss per share	\$(.03)	\$(.02)

Anti-dilutive shares excluded from net loss share calculation	28,286,546	30,566,892
---	------------	------------

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.

Equity Investments - The Company accounts for investments in equity securities of other entities under the cost method of accounting if investments in voting equity interests of the investee are less than 20%. The equity method of accounting is used if the Company's investment in voting stock is greater than or equal to 20% but less than a majority. In considering the accounting method for investments less than 20%, the Company also considers other factors such as its ability to exercise significant influence over operating and financial policies of the investee. If certain factors are present, the Company could account for investments for which it has less than a 20% ownership under the equity method of accounting.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements - 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, 2017. The Company will evaluate the effect that the updated standard will have on its financial statements and related disclosures and select a transition method.

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 adopted the standard as of December 31, 2015. See Note 2.

In April 2015, the FASB issued new accounting guidance on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a note be presented as a direct deduction from that note. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. We do not believe this guidance will have a material effect on our financial statements when adopted.

In November 2015, the FASB issued new accounting guidance on the classification of deferred taxes. The new guidance requires that all deferred tax asset and liabilities be classified as noncurrent in a classified statement of financial position. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early application is permitted. When the guidance is effective all deferred tax assets and liabilities will be presented as noncurrent. We do not believe this guidance will have a material effect on our financial statements when adopted.

In February 2016, the FASB issued amended guidance for lease arrangements in order to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. The guidance, which is required to be adopted in the first quarter of 2019, will be applied on a modified retrospective basis beginning with the earliest period presented. Early adoption is permitted. We are currently evaluating the impact of adopting this guidance on our financial statements.

NOTE 4. - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Depreciable				
	Lives		2015	2014	
Software	3 to	5 years	\$29,004	\$29,004	
Equipment	3 to	10 years	158,851	155,039	
Furniture and fixtures	5 to	7 years	17,735	17,735	
Leasehold improvements	3 years		5,874	5,874	
			211,464	207,652	
Accumulated depreciation			(172,191)	(147,613)	
			\$39,273	\$60,039	

Depreciation expense was \$24,578 and \$25,047 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5. – SOFTWARE

On February 6, 2015, the Company purchased all rights to cyber security network vulnerability assessment software (the “Software”) from UberScan, LLC (the “Seller”). 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. After April 7, 2015, the note began to accrue interest at 10% per annum. Subsequently, the Company and the Seller amended the note to extend the maturity date to March 31, 2016. 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 being amortized over the estimated useful life of five years beginning on the date the asset is placed in service. Annual amortization expense was \$27,000 in 2015 and is estimated to be \$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. There were no royalties paid or earned during the year ended December 31, 2015.

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 amount is payable when the total licensing fees paid to the Company less the licensing fee payments made to the Seller equals the difference between \$500,000 and the total software development cost. The Company has determined the potential obligation is not probable and accordingly no liability was recorded at December 31, 2015 or 2014.

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 6. - INVESTMENT

During 2014 and 2013, the Company purchased an aggregate of 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 December 31, 2015 and December 31, 2014, 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.

The Series A stock votes together with all other classes of stock as a single class on all actions to be taken by the stockholders. Series A stock dividends accrue at the rate of \$.10 per year on each share from the date of issuance. Each Series A share entitles the holder to such number of votes per share based on the number of shares of common stock it is convertible into. At the option of the holder, each share and accrued and unpaid dividends are convertible into shares of common stock at a rate of the quotient of (i) preferred shares plus unpaid dividends divided by (ii) the number of preferred shares. Shares of Series A stock are automatically converted to shares of common stock upon a firm commitment underwritten public offering of common stock yielding gross proceeds of at least \$10 million at a minimum price of \$3 per share.

During 2015, the investment was written down using the equity method because of the net losses recorded by goSudo. In addition, the remaining carrying value of the investment was considered impaired at December 31, 2015 due to continued net losses of goSudo.

During 2015, the accounts receivable balance of \$110,000 due from goSudo was converted to a demand note with interest at 10% and was fully reserved upon conversion, due to continued net losses of goSudo. As a result, a loss on investment of \$109,000 and bad debt expense of \$110,000 were recorded during 2015. During the year 2014, the investment was written down by \$168,000 consisting of \$68,000 equity interest in the loss of goSudo and an impairment loss of \$100,000.

Unaudited financial information for goSudo as of and for the year ended December 31, 2015 reflects total assets of \$38,868 (\$10,639 – 2014), total liabilities of \$867,105 (\$753,305 - 2014), and a net loss of \$152,808 (\$781,300 – 2014). goSudo is a development stage enterprise and had \$122,786 of revenues earned by providing services to the Company for the year ended December 31, 2015 (\$0 – 2014).

NOTE 7. - LOAN ORIGINATION FEES

On December 1, 2014, the Company entered into an unsecured line of credit financing agreement with a member of its board of directors. The Company paid an origination fee consisting of (i) 600,000 shares of its common stock valued

at \$30,000 and (ii) options to purchase 600,000 shares of its common stock at an exercise price of \$.05 valued at \$23,400 using the Black-Scholes option-pricing model all of which were immediately vested. At December 31, 2015, the Company has deferred origination fees of \$53,400 less accumulated amortization expenses of \$18,762 with a net carrying value of \$34,638 (\$51,957 -2014). The Company will amortize the remaining balance at the rate of \$17,319 annually in 2016 and 2017.

NOTE 8. - NOTES PAYABLE – CURRENT

Notes payable consists of the following:

	December 31,	
	2015	2014
Note payable, 10%, unsecured	\$30,000	\$30,000
Note payable, 10%, secured by Software (A)	42,000	0
	\$72,000	\$30,000

(A)
Note payable, 10%, secured by Software - During 2015, the Company issued a note in connection with the purchase of Software (see note 5). The note is due on June 30, 2016.

Notes payable - related parties consist of:

	December 31,	
	2015	2014
Convertible demand note payable to employee, 11% (A)	\$49,776	\$59,000
Demand note payable to former director, 10%, unsecured	30,000	30,000
Convertible demand note payable to former director, 12%, unsecured (B)	40,000	40,000
	\$119,776	\$129,000

(A)
Convertible demand note payable to employee, 11% - At December 31, 2015 and 2014, the Company was obligated to an employee for \$49,776 and \$59,000, respectively, with interest at 11%. The note is secured by a subordinate lien on all of the Company's assets. The principal and accrued interest are convertible at the option of the holder into shares of common stock at \$.16 per share.

(B) Convertible demand note payable to former director, 12%, - At December 31, 2015 and 2014, the Company was obligated to a former director for \$40,000 with interest at 12%. The note is unsecured and the principal is convertible at the option of the holder into shares of common stock at \$.11 per share.

NOTE 9. - LONG-TERM OBLIGATIONS

Notes Payable - Banks and Other

Term notes payable - banks and other consist of:

	December 31,	
	2015	2014
Note payable, 10%, secured, due January 1, 2018	\$265,000	\$265,000
Convertible term note payable, 12%, secured, due August 31, 2018	175,000	175,000
Convertible notes payable, 6%, due December 31, 2016	150,000	150,000
Term note payable - PBGC, 6%, secured	249,000	261,000
Obligation to PBGC based on free cash flow	569,999	569,999
Convertible term note payable, 7%, secured, due October 3, 2016	100,000	100,000
Term notes payable - banks, secured	0	2,407
	1,508,999	1,523,406
Less: current maturities	262,000	14,388
	\$1,246,999	\$1,509,018

Note payable, 10%, secured, due January 1, 2018 - During the years ended December 31, 2004 and 2003, the Company issued secured notes payable aggregating \$265,000. All of these borrowings bear interest at 10% and are due, as modified on January 1, 2018. The notes are secured by a first lien on accounts receivable that are not otherwise used by the Company as collateral for other borrowings and by a second lien on accounts receivable.

Convertible term note payable, 12%, secured, due August 31, 2018 - The Company entered into a secured loan agreement during 2008 for working capital. The loan bears interest at 12%, which is payable monthly and is due, as modified on August 31, 2018 for an aggregate of \$175,000. During 2009, the note was modified for its conversion into common shares at \$.25 per share, which was the closing price of the Company's common stock on the date of the modification. The note is secured by a subordinate lien on all assets of the Company.

Convertible notes payable, 6%, due December 31, 2016 - At December 31, 2015, the Company was obligated to unrelated third parties for \$150,000 (\$150,000 - 2014). The principal is convertible at the option of the holder into shares of common stock at \$.05 per share. The notes bear interest at 6.0% at December 31, 2015 (6.0% - 2014). The Notes are convertible into shares of common stock subject to the following limitations. The Notes are not convertible to the extent that shares of common stock issuable upon the proposed conversion would result in a change in control of the Company which would limit the use of its net operating loss carryforwards; provided, however if the Company closes a transaction with another third party or parties that results in a change of control which will limit the use of its net operating loss carryforwards, then the foregoing limitation shall lapse. Prior to any conversion by a requesting note holder, each note holder holding a note which is then convertible into 5% or more of the Company's common stock

Edgar Filing: INFINITE GROUP INC - Form 10-K

shall be entitled to participate on a pari passu basis with the requesting note holder and upon any such participation the requesting note holder shall proportionately adjust his conversion request such that, in the aggregate, a change of control, which will limit the use of the Company's net operating loss carryforwards, does not occur.

Term note payable - PBGC, 6%, secured - On October 17, 2011, in accordance with of the Settlement Agreement dated September 6, 2011 (the "Settlement Agreement"), the Company issued a secured promissory note in favor of the Pension Benefit Guaranty Corporation (the "PBGC") for \$300,000 bearing interest at 6% per annum amortizing in quarterly payments over a seven-year period with a balloon payment of \$219,000 due on September 15, 2018.

Obligation to PBGC based on free cash flow - On October 17, 2011, in accordance with the Settlement Agreement, the Company became obligated to make annual future payments to the PBGC through December 31, 2017 equal to a portion of the Company's "Free Cash Flow" as defined in the Settlement Agreement, not to exceed \$569,999. The annual obligation is contingent upon the Company earning free cash flow in excess of defined amounts which vary by year. The annual amount is due fifteen days after the issuance of the Company's audited financial statements relating to the previous year. The Settlement Agreement contains specific events of default and provisions for remedies upon default. No amounts have been owed or paid on this obligation as of December 31, 2015 or 2014.

Convertible term note payable, 7%, secured - In accordance with the Settlement Agreement, the Company repurchased 500,000 shares of its common stock from the previously terminated defined benefit retirement plan for \$130,000 which was funded from the proceeds of a convertible note in the principal amount of \$100,000 to a non-affiliated accredited investor on October 4, 2011 and \$30,000 of the Company's working capital. The note bears interest at the rate of 7% per annum, payable monthly, matures on October 3, 2016 and is secured by a subordinate lien on all of the Company's assets. The note's principal is convertible at the option of the holder into shares of the Company's common stock at \$.10 per share, which was the price of the Company's common stock on the closing date of the agreement.

Term notes payable - banks, secured - The Company entered into capital lease agreements during 2012 and 2010 for the secured financing of office and technology equipment. The remaining capital lease bore interest at 14.9% and was due in monthly installments of \$318 through August 2015.

Notes Payable - Related Parties

Notes payable – related parties consist of the following:

December 31,

	2015	2014
Convertible notes payable, 6%, due January 1, 2017	\$419,300	\$473,000
Note payable, line of credit, 6.35%, unsecured	394,028	200,000
Convertible note payable, 7%, due March 31, 2018	25,000	0
	838,328	673,000
Less current maturities	16,979	8,172
	\$821,349	\$664,828

Convertible notes payable, 6%, due January 1, 2017 - The Company has various notes payable to related parties totaling \$419,300 at December 31, 2015 (\$473,000 – 2014) which mature, as amended, on January 1, 2017 with principal and accrued interest convertible at the option of the holder into shares of common stock at \$.05 per share. The notes bear interest at 6.0% at December 31, 2015 (6.0% - 2014). The interest rate is adjusted annually, on January 1st of each year, to a rate equal to the prime rate in effect on December 31st of the immediately preceding year, plus one and one quarter percent, and in no event, shall the interest rate be less than 6% per annum.

The Company executed collateral security agreements with the note holders providing for a subordinate security interest in all of the Company's assets. Generally, upon notice, prior to the note maturity date, the Company can prepay all or a portion of the outstanding notes.

The Notes are convertible into shares of common stock subject to the following limitations. The Notes are not convertible to the extent that shares of common stock issuable upon the proposed conversion would result in a change in control of the Company which would limit the use of its net operating loss carryforwards; provided, however, if the Company closes a transaction with another third party or parties that results in a change of control which will limit the use of its net operating loss carryforwards, then the foregoing limitation shall lapse. Prior to any conversion by a requesting note holder, each note holder holding a note which is then convertible into 5% or more of the Company's common stock shall be entitled to participate on a pari passu basis with the requesting note holder and upon any such participation the requesting note holder shall proportionately adjust his conversion request such that, in the aggregate, a change of control, which will limit the use of the Company's net operating loss carryforwards, does not occur.

Note payable, line of credit, 6.35%, unsecured - On December 1, 2014, the Company entered into an unsecured line of credit financing agreement with a member of its board of directors. The LOC Agreement provides for working capital of up to \$400,000 through December 31, 2017. The Company is required to provide the lender with a report stating the use of proceeds for each pending draw under the line of credit. Borrowings of \$100,000 or more bear interest at the prime rate plus 2.85% (effective rate of 6.35% at December 31, 2015). 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.

Convertible note payable, 6%, due March 31, 2018 - On February 12, 2015, the Company borrowed \$25,000 from a Company officer. The note is unsecured and matures on March 31, 2018 with principal convertible at the option of the holder into shares of common stock at \$.10 per share.

Long-Term Obligations

Minimum future annual payments of long-term obligations as of December 31, 2015 are as follows:

2016	\$278,979
2017	1,378,348
2018	690,000
Total long-term obligations	\$2,347,327

NOTE 10. - STOCKHOLDERS' DEFICIENCY

Preferred Stock - The Company's certificate of incorporation authorizes its board of directors to issue up to 1,000,000 shares of preferred stock. The stock is issuable in series that may vary as to certain rights and preferences, as determined upon issuance, and has a par value of \$.01 per share. As of December 31, 2015 and 2014 there were no preferred shares issued or outstanding.

Common Stock - On December 1, 2014, as payment of a portion of an origination fee under the LOC Agreement, the Company issued 600,000 shares of its common stock at \$.05 per share.

NOTE 11. - STOCK OPTION PLANS AND AGREEMENTS

The Company's board of directors and stockholders have approved stock option plans adopted in 1996, 1997, 1998, 1999, and 2005, which have authority to grant options to purchase up to an aggregate of 581,473 common shares at December 31, 2015 (3,937,833 – 2014). No further grants may be made from these plans.

2009 Plan - During 2009, the Company's board of directors approved the 2009 stock option plan, which grants options to purchase up to an aggregate of 4,000,000 common shares. As of December 31, 2015, 768,000 (470,500 – 2014) options to purchase shares remain unissued under the 2009 plan. Options issued to date are nonqualified since the Company has decided not to seek stockholder approval of the 2009 Plan.

Option Agreements - During 2014 and 2013, the Company's board of directors approved stock option agreements with consultants and a member of the board of directors of which options for an aggregate of 2,175,000 common shares are outstanding at December 31, 2015 with an average exercise price of \$.15 per share. At December 31, 2015, options for 525,000 shares are vested; options for 1,650,000 shares vest based on achieving specific sales performance criteria for the Company.

Origination Fee - On December 1, 2014, as payment of a portion of an origination fee under the LOC Agreement, the Company issued options to purchase 600,000 shares of its common stock at an exercise price of \$.05, all of which were immediately vested.

The Company grants stock options to its key employees and independent service providers as it deems appropriate. Employee stock options are exercisable as long as the optionee continues to be an employee of the Company and for thirty days subsequent to employee termination.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions.

Volatility is based on the Company's historical volatility. The expected life of the options was assumed to be 3.25 or 5.75 years using the simplified method for plain vanilla options as stated in FASB ASC 718 to improve the accuracy of this assumption while simplifying record keeping requirements until more detailed information about the Company's exercise behavior is available. The risk-free rate for the life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Edgar Filing: INFINITE GROUP INC - Form 10-K

The following assumptions were used for the years ended December 31, 2015 and 2014.

	2015	2014
Risk-free interest rate	1.49% - 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 - 5.75 years

The following is a summary of stock option activity, including qualified and non-qualified options for the years ended December 31, 2015 and 2014:

	Number of Options Outstanding	Weighted Average Exercise Price	Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	9,220,500	\$.18		
Granted	3,030,000	\$.09		
Expired	(517,667)	\$.15		
Forfeited	(833,333)	\$.13		
Outstanding at December 31, 2014	10,899,500	\$.16		
Granted	150,000	\$.05		
Expired	(1,954,333)	\$.13		
Forfeited	(651,667)	\$.13		
Outstanding at December 31, 2015	8,443,500	\$.16	4.8 years	\$0
Vested or expected to vest at December 31, 2015	6,693,500	\$.17	5.4 years	\$0
Exercisable at December 31, 2015	6,073,500	\$.17	5.2 years	\$0

Edgar Filing: INFINITE GROUP INC - Form 10-K

At December 31, 2015, there was approximately \$22,000 of total unrecognized compensation cost related to outstanding non-vested options, which excludes non-vested options which are performance based for which the option expense cannot be presently quantified. This cost is expected to be recognized over a weighted average period of approximately one year. The total fair value of shares vested during the year ended December 31, 2015 was approximately \$89,000.

The weighted average fair value of options granted was \$.03 and \$.07 per share for the years ended December 31, 2015 and 2014, respectively. The exercise price for all options granted equaled or exceeded the market value of the Company's common stock on the date of grant.

NOTE 12. - INCOME TAXES

The components of income tax expense (benefit) consists of the following:

	December 31,	
	2015	2014
Deferred:		
Federal	\$(255,000)	\$(135,000)
State	(31,000)	90,000
	(286,000)	(45,000)
Change in valuation allowance	286,000	45,000
	\$0	\$0

At December 31, 2015, the Company had federal net operating loss carryforwards of approximately \$7,300,000 (\$6,800,000 – 2014) and various state net operating loss carryforwards of approximately \$2,500,000 (\$2,200,000 – 2014) which expire from 2018 through 2035. These carryforwards exclude federal net operating loss carryforwards from inactive subsidiaries of approximately \$6,600,000 (\$6,600,000 – 2014), as well as net operating loss carryforwards from states that the Company does not presently operate in. Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenues Code and similar state provisions. The annual limitation may result in the expiration of the net operating loss carryforwards before utilization.

At December 31, 2015, a net deferred tax asset, representing the future benefit attributed primarily to the available net operating loss carryforwards and defined benefit pension plan expenses, in the amount of approximately \$3,431,000 (\$3,145,000 - 2014), had been fully offset by a valuation allowance because management believes that the statutory limitations on utilization of the operating losses and concerns over achieving profitable operations diminish the Company's ability to demonstrate that it is more likely than not that these future benefits will be realized before they expire.

The following is a summary of the Company's temporary differences and carryforwards which give rise to deferred tax assets and liabilities.

December 31,

	2015	2014
--	------	------

Deferred tax assets (liabilities):

Net operating loss carryforwards	\$2,614,000	\$2,423,000
Defined benefit pension liability	325,000	331,000
Reserves and accrued expenses payable	492,000	391,000
Gross deferred tax asset	3,431,000	3,145,000
Deferred tax asset valuation allowance	(3,431,000)	(3,145,000)
Net deferred tax asset	\$0	\$0

F-13

The differences between the U.S. statutory federal income tax rate and the effective income tax rate in the accompanying statements of operations are as follows:

	December 31,	
	2015	2014
Statutory U.S. federal tax rate	34.0%	34.0%
State income taxes	3.8	(18.0)
Change in valuation allowance	(35.3)	(9.1)
Stock-based compensation expense	(1.7)	(4.5)
Expired stock-based compensation	(.4)	(1.8)
Other permanent non-deductible items	(.4)	(.6)
Effective income tax rate	0.0 %	0.0%

NOTE 13. - EMPLOYEE RETIREMENT PLANS

Simple IRA Plan - Through December 31, 2012, the Company offered a simple IRA plan as a retirement plan for eligible employees who earned at least \$5,000 of annual compensation. Eligible employees could elect to contribute a percentage of their compensation up to a maximum of \$11,500. The accrued liability for the simple IRA plan, including interest, was \$216,913 and \$208,449, as of December 31, 2015 and 2014, respectively.

401(k) Plan - Effective, January 1, 2013, the Company began offering a defined contribution 401(k) plan in place of the simple IRA plan. For 2015, 401(k) employee contribution limits are \$18,000 plus a catch up contribution for those over age 50 of \$6,000. The Company can elect to make a discretionary contribution to the Plan. No discretionary contribution was approved for 2015 or 2014.

NOTE 14. - COMMITMENTS

Lease Commitments - The Company leases its headquarters facility under an operating lease agreement that expires in May 2016. Rent expense under the operating lease was approximately \$64,900 less amounts received from a sublease to a related party of \$18,097 for each of the years ended December 31, 2015 and 2014. Future minimum payments required under the lease are \$26,945 in 2016 less amounts due from a sublease to a related party of \$7,530.

NOTE 15. - RELATED PARTY ACCOUNTS RECEIVABLE AND ACCRUED INTEREST PAYABLE

Accounts Receivable – 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. At December 31, 2015, there are no accounts receivable due from this related party (\$66,885 - December 31, 2014).

Accrued Interest Payable – Included in accrued interest payable is accrued interest payable to related parties of \$411,303 at December 31, 2015 (\$378,731 - 2014).

NOTE 16. - 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 5). During 2015, the Company made principal

payments of \$38,000.

During 2015, the accounts receivable balance of \$110,000 due from goSudo was converted to a demand note with interest at 10% and was fully reserved upon conversion. The note is on non-accrual status and the net carrying value is \$0 at December 31, 2015.

On December 1, 2014, as payment of an origination fee under the LOC Agreement, the Company issued 600,000 shares of its common stock at \$.05 per share valued at \$30,000 and issued options to purchase 600,000 shares of its common stock at an exercise price of \$.05 valued at \$23,400.

NOTE 17. - SUBSEQUENT EVENTS

Subsequent to year end and through April 14, 2016, the Company issued options for 315,000 common shares at an exercise price of \$.10; 315,000 common shares at an exercise price of \$.25; and 308,000 common shares at an exercise price of \$.34 to a former Company officer. The options become exercisable as authorized by the board of directors.

On March 14, 2016, the Company entered into an unsecured financing agreement with a third party lender. The agreement provides for \$500,000 of working capital with draws of \$200,000 which occurred on April 13, 2016, \$200,000 to occur on July 1, 2016 and \$100,000 to occur on October 1, 2016. Borrowings bear interest at 6% with interest payments due quarterly. Principal is due on December 31, 2021. Principal and interest may become immediately due and payable upon the occurrence of customary events of default. In consideration for providing the financing, the Company paid the lender a fee consisting of 2,500,000 shares of its common stock valued at \$37,500 on the date of the agreement based upon the closing bid quotation of its common stock on the OTC Bulletin Board on that date. The lender has piggy back registration rights for these shares. The Company's Chief Executive Officer and President agreed to guarantee the loan obligations if he is no longer an "affiliate" of the Company as defined by Securities and Exchange Commission rules.