

INFINITE GROUP INC
Form 10-Q
November 12, 2008

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended: September 30, 2008

TRANSITION REPORT UNDER 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
(IRS Employer
Identification No.)

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

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

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

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. There were a total of 24,935,328 shares of the issuer's common stock, par value \$.001 per share, outstanding as of November 12, 2008.

INFINITE GROUP, INC.
FORM 10-Q REPORT

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FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove

inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. The terms “we”, “our”, “us”, or any derivative thereof, as used herein refer to Infinite Group, Inc., a Delaware corporation, and its predecessors.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements**INFINITE GROUP, INC.****Consolidated Balance Sheets**

| | September 30, 2008 (Unaudited) | December 31, 2007 (Audited) |
|--|--------------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 39,307 | \$ 28,281 |
| Accounts receivable, net of allowance of \$35,000 | 1,206,999 | 669,607 |
| Prepaid expenses and other current assets | 58,932 | 59,381 |
| Total current assets | 1,305,238 | 757,269 |
| Property and equipment, net | 60,539 | 70,723 |
| Other assets – security deposits | 12,641 | 19,523 |
| Total assets | \$ 1,378,418 | \$ 847,515 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current liabilities: | | |
| Accounts payable | \$ 431,210 | \$ 299,519 |
| Accrued payroll | 434,646 | 262,453 |
| Accrued interest payable | 268,645 | 269,530 |
| Accrued pension and retirement | 2,352,191 | 2,081,508 |
| Accrued expenses – other | 69,802 | 86,197 |
| Current maturities of notes payable | 4,325 | 4,077 |
| Notes payable | 30,000 | 30,000 |
| Notes payable-related parties | 258,846 | 140,332 |
| Total current liabilities | 3,849,665 | 3,173,616 |
| Long-term obligations: | | |
| Notes payable | 232,502 | 29,706 |
| Notes payable-related parties | 890,624 | 1,091,624 |
| Accrued pension expense | 302,395 | 408,419 |
| Total liabilities | 5,275,186 | 4,703,365 |
| Commitments and contingencies (note 6) | | |
| Stockholders' deficiency: | | |
| Common stock, \$.001 par value, 60,000,000 shares authorized; 24,935,328 (23,614,965 – 2007) shares issued and outstanding | 24,935 | 23,615 |
| Additional paid-in capital | 29,646,038 | 29,386,215 |
| Accumulated deficit | (31,340,052) | (31,037,991) |
| Accumulated other comprehensive loss | (2,227,689) | (2,227,689) |
| Total stockholders' deficiency | (3,896,768) | (3,855,850) |

| | | | | |
|--|----|------------------|----|---------|
| Total liabilities and stockholders' deficiency | \$ | 1,378,418 | \$ | 847,515 |
|--|----|------------------|----|---------|

See notes to consolidated financial statements.

INFINITE GROUP, INC.

Consolidated Statements of Operations (Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Sales | \$ 2,478,978 | \$ 2,063,644 | \$ 7,109,403 | \$ 6,008,314 |
| Cost of services | 1,795,927 | 1,570,556 | 5,164,602 | 4,322,505 |
| Gross profit | 683,051 | 493,088 | 1,944,801 | 1,685,809 |
| Costs and expenses: | | | | |
| General and administrative | 265,694 | 238,890 | 779,849 | 631,370 |
| Defined benefit pension plan | 67,082 | 84,017 | 166,074 | 273,035 |
| Selling | 296,597 | 415,325 | 1,045,747 | 1,118,089 |
| Depreciation | 9,201 | 7,892 | 27,523 | 26,009 |
| Research and development | - | 1,553 | - | 88,807 |
| Total costs and expenses | 638,574 | 747,677 | 2,019,193 | 2,137,310 |
| Operating income (loss) | 44,477 | (254,589) | (74,392) | (451,501) |
| Other income (expense): | | | | |
| Interest income | - | 43 | - | 255 |
| Interest expense: | | | | |
| Related parties | (30,638) | (34,834) | (95,015) | (105,113) |
| Other | (41,087) | (34,833) | (132,039) | (94,555) |
| Total interest expense | (71,725) | (69,667) | (227,054) | (199,668) |
| Other income (expense) | - | (1,634) | - | 4,957 |
| Total other income (expense) | (71,725) | (71,258) | (227,054) | (194,456) |
| Loss before income tax expense | (27,248) | (325,847) | (301,446) | (645,957) |
| Income tax expense | - | - | (615) | (605) |
| Net loss | \$ (27,248) | \$ (325,847) | \$ (302,061) | \$ (646,562) |
| Net loss per share – basic and diluted | \$ (.00) | \$ (.01) | \$ (.01) | \$ (.03) |
| Weighted average number of shares | | | | |
| outstanding – basic and diluted | 24,783,698 | 23,524,965 | 24,348,508 | 23,046,833 |

See notes to consolidated financial statements.

INFINITE GROUP, INC.**Consolidated Statements of Cash Flows (Unaudited)**

| | For the Nine Months Ended September 30, | |
|---|--|-----------------|
| | 2008 | 2007 |
| Operating activities: | | |
| Net loss | \$ (302,061) | \$ (646,562) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock based compensation | 197,727 | 255,056 |
| Depreciation | 27,523 | 26,009 |
| Gain on disposal of equipment | - | (4,957) |
| Increase in assets: | | |
| Accounts receivable | (537,392) | (139,003) |
| Other assets | (5,169) | (10,641) |
| Increase in liabilities: | | |
| Accounts payable | 131,690 | 29,452 |
| Accrued expenses | 204,163 | 222,413 |
| Accrued pension and retirement | 164,659 | 238,378 |
| Net cash used in operating activities | (118,860) | (29,855) |
| Investing activities: | | |
| Purchase of property and equipment | (17,339) | (22,686) |
| Proceeds from notes receivable | - | 4,015 |
| Net cash used in investing activities | (17,339) | (18,671) |
| Financing activities: | | |
| Proceeds from note payable | 200,000 | - |
| Repayments of notes payable | (2,956) | (10,114) |
| Repayments of notes payable-related parties | (66,486) | (7,003) |
| Proceeds from exercise of stock options | 16,667 | 500 |
| Net cash provided by (used in) financing activities | 147,225 | (16,617) |
| Net increase (decrease) in cash | 11,026 | (65,143) |
| Cash – beginning of period | 28,281 | 73,786 |
| Cash – end of period | \$ 39,307 | \$ 8,643 |
| Supplemental disclosure: | | |
| Cash paid for: | | |
| Interest | \$ 182,909 | \$ 140,890 |
| Income taxes | \$ 615 | \$ 605 |

See notes to consolidated financial statements.

INFINITE GROUP, INC.

Notes to Consolidated Financial Statements – (Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Infinite Group, Inc. (“Infinite Group, Inc.” or the “Company”), included herein have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-KSB for the year ended December 31, 2007 filed with the United States (U.S.) Securities and Exchange Commission (SEC). Results of consolidated operations for the nine months ended September 30, 2008 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2008. The consolidated financial statements herein include the accounts of the Company and its wholly owned subsidiaries. The subsidiaries are inactive. All material inter-company accounts and transactions have been eliminated.

Note 2. Summary of Significant Accounting Policies

There are several accounting policies that the Company believes are significant to the presentation of its consolidated financial statements. These policies require management to make complex or subjective judgments about matters that are inherently uncertain. Note 3 to the Company’s audited consolidated financial statements for the year ended December 31, 2007 presents a summary of significant accounting policies.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 157, Fair Value Measurements

Statement of Financial Accounting Standards No. 157, Fair Value Measurements - In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). Among other requirements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. The Company was required to adopt SFAS No. 157 on January 1, 2008. Subsequent to the Standard’s issuance, the FASB issued an exposure draft that provides for a deferral for the implementation of SFAS 157 for non-financial assets and liabilities which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The Company’s adoption of this standard was limited to financial assets and liabilities and did not have a material effect on the Company’s financial condition or results of operations. The Company is still in the process of evaluating the impact of this standard with respect to its effects on nonfinancial assets and liabilities and has not yet determined the impact that it will have on the financial statements upon full adoption.

Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS No. 159”)

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS No. 159”). SFAS No. 159 permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also

establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has not yet adopted the fair value option permitted by SFAS No. 159.

The Hierarchy of Generally Accepted Accounting Principles (“SFAS No. 162”)

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The purpose of this statement is to improve financial reporting by providing a consistent framework for determining applicable accounting principles to be used in the preparation of financial statements presented in conformity with accounting principles generally accepted in the U.S. SFAS No. 162 will become effective 60 days after the SEC’s approval. The Company believes that the adoption of this standard on its effective date will not have a material effect on its consolidated financial statements.

Note 3. Stock Option Plans

The Company's board of directors and stockholders have approved stock options plans covering up to an aggregate of 5,228,833 shares. Such options may be designated at the time of grant as either incentive stock options or nonqualified stock options. Stock based compensation includes expense charges related to all stock-based awards to employees, directors and consultants. Such awards include options, warrants and stock grants.

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", (SFAS 123R) using the modified prospective transition method and the Black-Scholes analysis. The Company used volatility of 50% when computing the value of stock options and warrants during the nine months ended September 30, 2008 and 2007. Each option awarded in 2008 and 2007 has a ten year exercise term. The expected dividend yield is zero percent. The expected life of the options was assumed to be the ten year contractual term. For options issued after September 30, 2008 the term is assumed to be 5.75 years using the simplified method for plain vanilla options as stated in SEC Staff Accounting Bulletin No. 110 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 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 3.74% to 4.10% for the nine months ended September 30, 2008 and 4.52% to 4.75% for the nine months ended September 30, 2007.

The Company recorded expense for options, warrants and common stock issued to employees and independent service providers for the three months and nine months ended September 30, 2008 and 2007 as follows. There was no impact from SFAS 123R on net loss per share for the three or nine months ended September 30, 2008 and 2007.

| | Nine Months ended September 30, 2008 | Nine Months ended September 30, 2007 | Three Months ended September 30, 2008 | Three Months ended September 30, 2007 |
|-------------------------------------|---|---|--|--|
| Employee stock options | \$ 159,244 | \$ 180,068 | \$ 61,027 | \$ 97,009 |
| Consultants – common stock warrants | 25,983 | 49,988 | 19,886 | 13,095 |
| Consultant – shares of common stock | 12,500 | 25,000 | - | 12,500 |
| Total expense | \$ 197,727 | \$ 255,056 | \$ 80,913 | \$ 122,604 |

A summary of all stock option activity for nine months ended September 30, 2008 follows:

| | Number of Options | Weighted Average Exercise Price | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-----------------------------------|------------------------------|--|---|--------------------------------------|
| Outstanding at December 31, 2007 | 4,914,500 | \$.27 | | |
| Options granted | 525,000 | \$.56 | | |
| Options expired | (674,333) | \$.46 | | |
| Options exercised | (66,667) | \$.25 | | |
| Outstanding at September 30, 2008 | 4,698,500 | \$.28 | 6.8 years | \$ 1,193,095 |

| | | | | | | |
|-----------------------------------|-----------|----|-----|-----------|----|-----------|
| Exercisable at September 30, 2008 | 4,164,167 | \$ | .24 | 6.5 years | \$ | 1,185,475 |
|-----------------------------------|-----------|----|-----|-----------|----|-----------|

The weighted average fair value of options granted during the nine months ended September 30, 2008 was approximately \$.36 (\$.33 during the nine months ended September 30, 2007). Options for 66,667 and 10,000 shares were exercised during the nine months ended September 30, 2008 and 2007, respectively. The Company received aggregate proceeds of \$16,667 and \$500, respectively, and the options had an intrinsic value of \$38,000 and \$4,700, respectively.

A summary of nonvested stock option activity for the nine months ended September 30, 2008 follows:

| | Number of Nonvested Options | Weighted Average Fair Value at Grant Date |
|---|-----------------------------------|---|
| Nonvested outstanding at December 31, 2007 | 662,333 | \$.30 |
| Options granted | 525,000 | \$.36 |
| Options vested | (585,667) | \$.31 |
| Options forfeited | (67,333) | \$.38 |
| Nonvested outstanding at September 30, 2008 | 534,333 | \$.34 |

At September 30, 2008, there was approximately \$166,000 of total unrecognized compensation cost related to non-vested options granted under the Company's stock option plans. That cost is expected to be recognized over a weighted average period of one year. The total fair value of shares that vested during the nine months ended September 30, 2008 was approximately \$183,000.

Note 4. Supplemental Cash Flow Information

Non-cash investing and financing transactions, including non-monetary exchanges, consist of the following:

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2008 | 2007 |
| Conversion of note payable-related party and related accrued interest payable to 1,185,000 shares of common stock | \$ 59,250 | \$ - |
| Conversion of notes payable-related party to 1,000,000 shares of common stock | \$ - | \$ 50,000 |
| Issuance of 100,000 shares of common stock in exchange for consulting services to be provided over one year | \$ - | \$ 50,000 |

During the nine months ended September 30, 2008, warrants were exercised for 122,500 shares of common stock on a cashless basis resulting in the Company's net issuance of 68,696 shares of common stock.

On August 1, 2008, the terms of a warrant issued to a business development consultant were modified such that a specific performance criterion was eliminated and 100,000 options vest on periodic schedule through July 1, 2009. During the three months ended September 30, 2008, the Company recorded \$19,886 of expense associated with such change.

Note 5. Earnings Per Share

Basic net income (loss) per share is based on the weighted average number of common shares outstanding during the periods presented. Diluted income (loss) 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 stock options, warrants and convertible notes payable. Stock options and warrants with exercise prices that exceeded the average fair market value of common stock had an antidilutive effect and therefore, were excluded from the computation of net income (loss) per share. 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

assumed to be exercised. In a loss period, the calculation for basic and diluted net loss per share is considered to be the same, as the impact of potential common shares is anti-dilutive.

If the Company had generated earnings, common stock equivalents would have been added to the weighted average shares outstanding during the three and nine months ended September 30, 2008 and 2007 as set forth below. These additional shares represent the assumed exercise of common stock options, warrants and convertible notes payable whose exercise price is less than the average common stock price during the period. The proceeds of the exercise are assumed to be used to purchase common stock for treasury and the incremental shares are added to the weighted average shares outstanding.

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|--------------------------|------------------------------------|------------|-------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Common stock equivalents | 19,573,817 | 19,381,198 | 19,605,103 | 19,399,238 |

Note 6. Employee Pension Plan

Prior to December 30, 2002, the Company owned 100% of the common stock of Osley & Whitney, Inc. (O&W). On December 30, 2002, the Company sold 100% of the O&W common stock to a third party, but continued to act as the sponsor of the O&W Retirement Plan (O&W Plan). Although the Company continued to act as the sponsor of the O&W Plan after the sale, during 2007 management determined that the Company had no legal obligation to do so.

During 2007, the Company submitted information to the Department of Treasury (DOT) advocating that it had no legal obligation to act as the sponsor of the O&W Plan to ascertain whether the DOT concurred or disagreed with this position. The DOT is presently reviewing this information. If the DOT does not concur with this position, the Company may become obligated for additional estimated excise taxes on accumulated unfunded O&W Plan contributions for the plan years ended December 31, 2006 and 2007 of approximately \$135,000 and \$157,000, respectively, totaling \$292,000, which has not been accrued because of the determination that the Company has no legal obligation and the Company's belief that the likelihood is remote that it will be required to pay these excise taxes. Further, if the DOT does not concur with this position, the Company may be required to pay interest on these excise taxes and potentially incur additional excise taxes up to 100% of all required plan contributions. No such excise taxes or related interest have been assessed and no portion of this amount has been accrued at September 30, 2008 since the Company believes that the likelihood is remote that it will be required to pay these excise taxes. If the DOT does not concur with the Company's position, the Company intends to pursue all appropriate further avenues to prevail in its position. During 2006, the Pension Benefit Guarantee Corporation placed a lien on all of the Company's assets to secure the contributions due to the O&W Plan. This lien is subordinate to liens that secure accounts receivable financing and certain notes payable.

At September 30, 2008 the Company had accrued liabilities of \$2,564,170 related to the O&W Plan and accumulated other comprehensive loss of \$2,227,689 which was recorded as a reduction of stockholders' deficiency. The market value of the O&W Plan assets decreased from \$3,387,749 at December 31, 2007 to \$2,655,620 at September 30, 2008. The decrease was due to investment losses of \$367,853, benefit payments of \$329,194 and expenses paid of \$35,082.

Net periodic pension cost recorded in the accompanying statements of operations includes the following components of expense (benefit) for the periods presented.

| | Nine Months ended September 30, 2008 | | Nine Months ended September 30, 2007 | | Three Months ended September 30, 2008 | | Three Months ended September 30, 2007 | |
|--------------------------------|--|-----------|--|-----------|---|----------|---|----------|
| Interest cost | \$ | 225,357 | \$ | 249,181 | \$ | 74,248 | \$ | 88,488 |
| Expected return on plan assets | | (218,057) | | (205,581) | | (72,686) | | (68,527) |
| Expected expenses | | 48,750 | | 97,689 | | 16,250 | | 32,563 |
| Actuarial loss | | 82,364 | | 48,750 | | 27,455 | | 16,250 |
| Net periodic pension cost | \$ | 138,414 | \$ | 190,039 | \$ | 45,267 | \$ | 68,774 |

Note 7. Long-Term Obligations

On June 13, 2008, the Company issued a promissory note for \$200,000 to an accredited investor. The note is unsecured, bears interest at the rate of 12% per annum, which is payable monthly, and is due on June 2, 2010. The proceeds of the note are being used for working capital purposes.

Note 8. Related Parties Consulting Agreement and Notes Payable

In July 2008, James Villa, President of Intelligent Consulting Corporation (ICC), was appointed to the Company's board of directors to fill a vacancy. The Company has contracted with ICC on a month-to-month basis to provide consulting services related to business development and business strategies, special projects and other general corporate matters. During the nine months ended September 30, 2008 and 2007 the Company paid ICC \$103,210 and \$96,300, respectively. Mr. Villa is also the sole member of Northwest Hampton Holdings, LLC with which the Company has \$352,624 of outstanding notes payable and \$82,024 of accrued interest payable as of September 30, 2008.

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

We are a provider of IT services to federal, state and local government and commercial clients. Our expertise includes managing leading edge operations and implementing complex programs in advanced server management, server virtualization, network services, wireless technology, human capital services, enterprise architecture, and earned value management. We focus on aligning business processes with technology for delivery of solutions meeting our clients' exact needs and providing expert management services to the lifecycle of technology-based projects. We have a business development office in the Washington, D.C. metropolitan area.

We have several contract vehicles that enable us to deliver a broad range of our services and solutions to the U.S. Government. The quality and consistency of our services and IT expertise allow us to maintain long-term relationships with our major clients.

Results of Operations**Comparison of Three and Nine Month Periods ended September 30, 2008 and 2007**

The trends suggested by the following tables are not indicative of future operating results.

The following table compares our statements of operations data for the three months ended September 30, 2008 and 2007.

| | Three Months Ended September 30, | | | | 2008 vs. 2007 | |
|--|----------------------------------|-----------------|--------------|-----------------|------------------|-----------------------|
| | 2008 | As a % of Sales | 2007 | As a % of Sales | Amount of Change | % Increase (Decrease) |
| Sales | \$ 2,478,978 | 100.0% | \$ 2,063,644 | 100.0% | \$ 415,334 | 20.1% |
| Cost of services | 1,795,927 | 72.4 | 1,570,556 | 76.1 | 225,371 | 14.3 |
| Gross profit | 683,051 | 27.6 | 493,088 | 23.9 | 189,963 | 38.5 |
| General and administrative | 265,694 | 10.7 | 238,890 | 11.6 | 26,804 | 11.2 |
| Defined benefit pension plan | 67,082 | 2.7 | 84,017 | 4.1 | (16,935) | (20.2) |
| Selling | 296,597 | 12.0 | 415,325 | 20.1 | (118,728) | (28.6) |
| Depreciation | 9,201 | .4 | 7,892 | .4 | 1,309 | 16.6 |
| Research and development | - | - | 1,553 | .1 | (1,553) | (100.0) |
| Total costs and expenses | 638,574 | 25.8 | 747,677 | 36.2 | (109,103) | (14.6) |
| Operating income (loss) | 44,477 | 1.8 | (254,589) | (12.3) | 299,066 | (117.5) |
| Interest expense, net | (71,725) | (2.9) | (69,624) | (3.4) | (2,101) | 3.0 |
| Other expense | - | - | (1,634) | (.1) | 1,634 | (100.0) |
| Net loss | \$ (27,248) | (1.1)% | \$ (325,847) | (15.8)% | \$ 298,599 | (91.6)% |
| Net loss per share - basic and diluted | \$ (.00) | | \$ (.01) | | \$.01 | |

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The following table compares our statements of operations data for the nine months ended September 30, 2008 and 2007.

| | Nine Months Ended September 30, | | | | | |
|--|---------------------------------|-----------------|--------------|-----------------|-----------------------------------|-----------------------|
| | 2008 | As a % of Sales | 2007 | As a % of Sales | 2008 vs. 2007 Amount of Change | % Increase (Decrease) |
| Sales | \$ 7,109,403 | 100.0% | \$ 6,008,314 | 100.0% | \$ 1,101,089 | 18.3% |
| Cost of services | 5,164,602 | 72.6 | 4,322,505 | 71.9 | 842,097 | 19.5 |
| Gross profit | 1,944,801 | 27.4 | 1,685,809 | 28.1 | 258,992 | 15.4 |
| General and administrative | 779,849 | 11.0 | 631,370 | 10.5 | 148,479 | 23.5 |
| Defined benefit pension plan | 166,074 | 2.3 | 273,035 | 4.5 | (106,961) | (39.2) |
| Selling | 1,045,747 | 14.7 | 1,118,089 | 18.6 | (72,342) | (6.5) |
| Depreciation | 27,523 | .4 | 26,009 | .4 | 1,514 | 5.8 |
| Research and development | - | - | 88,807 | 1.5 | (88,807) | (100.0) |
| Total costs and expenses | 2,019,193 | 28.4 | 2,137,310 | 35.6 | (118,117) | (5.5) |
| Operating loss | (74,392) | (1.0) | (451,501) | (7.5) | 377,109 | (83.5) |
| Interest expense, net | (227,054) | (3.2) | (199,413) | (3.3) | (27,641) | 13.9 |
| Other income | - | - | 4,957 | .1 | (4,957) | (100.0) |
| Income tax expense | (615) | - | (605) | - | (10) | 1.7 |
| Net loss | \$ (302,061) | (4.2)% | \$ (646,562) | (10.8)% | \$ 344,501 | (53.3)% |
| Net loss per share - basic and diluted | \$ (.01) | | \$ (.03) | | \$.02 | |

Sales

Sales for the three months ended September 30, 2008 were \$2,478,978, an increase of \$415,344 or 20.1% as compared to sales for the three months ended September 30, 2007 of \$2,063,644. Sales for the nine months ended September 30, 2008 were \$7,109,403, an increase of \$1,101,089 or 18.3% as compared to sales for the nine months ended September 30, 2007 of \$6,008,314. A significant portion of this increase was a result of sales from new projects including the second phase of a significant server virtualization project for a major establishment of the U.S. Government which began in the third quarter of 2007 and was substantially completed in the second quarter of 2008. Other virtualization projects for new clients began in the second and third quarters of 2008. We use virtualization software provided by third party vendors such as VMware, to enable our clients to run multiple operating systems on one physical machine and therefore a broader, richer set of business applications.

We are actively pursuing opportunities to develop additional sales from new and existing target markets. In November 2007, we hired a new business development employee to focus efforts toward increasing sales in the server virtualization arena. Our new director of virtualization services is recognized as one of the nation's foremost technical experts who is consistently sought for speaking engagements at significant events and by the major industry trade journals. In June 2008, we hired a new business development employee for our regional office in Jackson, Mississippi to pursue state and local government business opportunities within the Gulf Coast region. In September 2008, we hired a new business development employee in North Carolina to pursue primarily commercial IT opportunities in the southeast U.S. We are also channeling energies towards forming alliances with large systems integrators, who are

mandated by federal policy to direct defined percentages of their work to small business subcontractors. In addition, we are currently working on proposals for contract awards that we believe will enhance our position as a government contractor.

Cost of Services and Gross Profit

Cost of services represents the cost of employee services related to the IT Services Group. Cost of services for the three months ended September 30, 2008 was \$1,795,927 or 72.4% of sales as compared to \$1,570,556 or 76.1% of sales for the three months ended September 30, 2007. Gross profit was \$683,051 or 27.6% of sales for the three months ended September 30, 2008 compared to \$493,088 or 23.9% of sales for the three months ended September 30, 2007. Cost of services for the nine months ended September 30, 2008 was \$5,164,602 or 72.6% of sales as compared to \$4,322,505 or 71.9 % of sales for the nine months ended September 30, 2007. Gross profit was \$1,944,801 or 27.4% of sales for the nine months ended September 30, 2008 compared to \$1,685,809 or 28.1% of sales for the nine months ended September 30, 2007.

The increase in the amount of gross profit in 2008 is due to increased sales volume which was offset by a change in the mix of our contracts as higher margin projects were completed and new projects with slightly lower margins were added during 2008.

Although our objective is to maintain an overall gross margin of approximately 30%, in the future we may submit bids on new work with lower gross profit margins to generate opportunities for long-term, larger volume contracts and more stable sales.

General and Administrative Expenses

General and administrative expenses include corporate overhead such as compensation and benefits for administrative and finance personnel, rent, insurance, professional fees, travel, and office expenses. General and administrative expenses for the three months ended September 30, 2008 were \$265,694 which was an increase of \$26,804 or 11.2% as compared to \$238,890 for the three months ended September 30, 2007. As a percentage of sales, general and administrative expense was 10.7% for the three months ended September 30, 2008 and 11.6% for the three months ended September 30, 2007.

General and administrative expenses for the nine months ended September 30, 2008 increased by \$148,479 or 23.5% from \$631,370 for the nine months ended September 30, 2007 to \$779,849 for the nine months ended September 30, 2008. As a percentage of sales, general and administrative expenses were 11.0% for the nine months ended September 30, 2008 and 10.5% for the nine months ended September 30, 2007.

General and administrative expenses increased beginning in July 2007 when we reclassified expenses associated with the reassignment of our consultant, Intelligent Consulting Corporation (ICC), from research and development to general and administrative expenses when the TouchThru™ development activities ended. We have contracted with ICC on a month-to-month basis to provide consulting services related to business development and business strategies, special projects and other general corporate matters. In addition, incentive compensation expense associated with our personnel recruiting began in the fourth quarter of 2007 as a result of our hiring a full-time recruiting director responsible for recruiting new billable employees.

We anticipate that general and administrative expenses will increase as we continue to grow our business and incur travel and other expenses associated with recruiting additional personnel and managing a larger business. However, we expect that general and administrative expenses will remain relatively stable as a percentage of sales as our sales increase.

Defined Benefit Pension Plan Expenses

Defined benefit pension plan expenses include expenses (including pension expense, professional services, and interest costs) associated with the O&W Plan of \$67,082 for the three months ended September 30, 2008 and \$84,017 for the three months ended September 30, 2007, a decrease of \$16,935. We incurred expenses of \$166,074 and \$273,035 for the nine months ended September 30, 2008 and 2007, respectively.

During the nine months ended September 30, 2007, we incurred legal and professional fees in connection with advocating our legal position with the appropriate regulatory authorities. Fees in 2008 are substantially reduced since we are awaiting a response from the regulatory authorities to our submission of information in 2007.

Selling Expenses

For the three months ended September 30, 2008, we incurred selling expenses of \$296,597 associated with expanding our IT Services Group business as compared to \$415,325 for the three months ended September 30, 2007, a decrease of \$118,728 or 28.6%. For the nine months ended September 30, 2008 we incurred selling expenses of \$1,045,747 associated with expanding our IT Services Group business compared to \$1,118,089 for the nine months ended September 30, 2007, a decrease of \$72,342 or 6.5%.

The decreases for the three and nine months ended September 30, 2008 are principally due to changes in certain business development personnel. In the August 2007, we added a business development employee to prepare proposals for new projects. In November 2007, we hired a new business development employee who is now our director of virtualization services. In June 2008, we hired a new business development employee for our regional office in Jackson, Mississippi to pursue state and local government business opportunities within the Gulf Coast region. In September 2008, we hired a new business development employee in North Carolina to pursue primarily commercial IT opportunities in the southeast U.S. These employee additions were offset during 2008 by certain business development employee terminations including one in our virtualization practice and two in our federal services practice, which positions were filled by existing employees.

We experienced a decrease in consulting expense of approximately \$52,000 for the nine months ended September 30, 2008, as a result of management's decision to reduce the use and rate of compensation to independent consultants. For the three months ended September 30, 2008 we experienced an increase in consulting expense of approximately \$5,300 due to amending the terms of a warrant issued to a business development consultant and recording \$19,886 of expense associated with such change, which offset reductions in the use of other consultants.

Depreciation Expenses

Depreciation expense was \$9,201 and \$7,892 for the three months ended September 30, 2008 and 2007, respectively, and was \$27,523 and \$26,009 for the nine months ended September 30, 2008 and 2007, respectively. In the normal course of business, certain assets, such as personal computers and related software, are upgraded and replaced.

Research and Development Expenses

During the third quarter of 2007, we terminated development activities and related expenses for TouchThru™ and reassigned an independent consultant from these development efforts to other business activities. As a result, we incurred no research and development expenses in 2008. For the three and nine months ended September 30, 2007 we recorded \$1,553 and \$88,807 of research and development expenses. These expenses were principally related to the development of an access control terminal and related software called TouchThru™. TouchThru™ is a self-contained terminal enabling physical access control using biometric identification. It incorporates fingerprint matching technology licensed from Ultra-Scan Corporation, a private technology company headquartered in Buffalo, New York.

Operating Income (Loss)

For the three months ended September 30, 2008 our operating income was \$44,477 compared to an operating loss of \$(254,589) for the three months ended September 30, 2007; an improvement of \$299,066. This is attributable to an increase in sales of \$415,334 which contributed an additional \$189,963 of gross profit and a decrease in operating expenses of \$109,103.

For the nine months ended September 30, 2008 our operating loss was \$(74,392) compared to an operating loss of \$(451,501) for the nine months ended September 30, 2007; an improvement of \$377,109. This is attributable to an increase in sales of \$1,101,089 which contributed an additional \$258,992 of gross profit and a decrease in operating expenses of \$118,117. We believe that our operations, as currently structured, together with our current financial resources, will result in improved financial performance in future periods.

Net Interest Expense

Net interest expense consists of interest income offset by interest expense on indebtedness and fees for financing accounts receivable invoices. Net interest expense was \$71,725 for the three months ended September 30, 2008 compared to net interest expense of \$69,624 for the three months ended September 30, 2007. Net interest expense was \$227,054 for the nine months ended September 30, 2008 compared to net interest expense of \$199,413 for the nine months ended September 30, 2007. The increase in net interest expense of \$27,641 for the nine months ended September 30, 2008 was principally due to an increase in the length of term and volume of accounts receivable invoices that were financed in 2008. We incurred new indebtedness in June 2008 of \$200,000 which is being used for working capital purposes.

Other Income (Expense)

Other income (expense) was \$0 and \$(1,634) for the three months ended September 30, 2008 and 2007, respectively. Other income (expense) was \$0 and \$ 4,957 for the nine months ended September 30, 2008 and 2007, respectively. Other income (expense) for the three and nine months ended September 30, 2007 was as a result of the sale of certain equipment.

Income Taxes

Income tax expense was \$0 for the three months ended September 30, 2008 and 2007, respectively. Income tax expense was \$615 and \$605 for the nine months ended September 30, 2008 and 2007, respectively, consisting of state taxes.

Net Loss

For the three months ended September 30, 2008, we recorded a net loss in the amount of \$(27,248) or \$(.00) per share compared to a net loss of \$(325,847) or \$(.01) per share for the three months ended September 30, 2007. For the nine months ended September 30, 2008, we recorded a net loss in the amount of \$(302,061) or \$(.01) per share compared to a net loss of \$(646,562) or \$(.03) per share for the nine months ended September 30, 2007.

Stock-Based Compensation

The following table provides pro forma non-GAAP financial data after adjustment for the impact that the adoption of SFAS 123R had on our financial statements including net loss. Pro forma data is calculated by adding back to net loss non-cash compensation expense recorded according to "Share-Based Payment", (SFAS 123R) which relates to stock options.

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Pro forma data is provided to investors to supplement the results of operations reported in accordance with GAAP. Management believes pro forma data is useful to help investors analyze the operating trends of the business before and after the adoption of SFAS 123R and to assess the relative underlying performance of the business. Management believes that pro forma data provides an additional tool for investors to use in comparing its financial results with other companies in the industry. By excluding non-cash charges such as SFAS 123R stock-based compensation, investors can evaluate our operations and can compare our results on a more consistent basis to the results of other companies in the industry. Management also uses pro forma data to evaluate potential acquisitions, establish internal budgets, and evaluate performance of our business.

We consider pro forma data to be an important indicator of our operational strength and performance of our business and a useful measure of our historical and prospective operating trends. However, there are significant limitations to the use of pro forma data since it may exclude amounts that impact our profitability and operating cash flows. We believe that these limitations are offset by clearly identifying the difference between the two measures. Consequently, pro forma data should not be considered in isolation or as a substitute for net income (loss) presented in accordance with GAAP. Pro forma data, as presented by us, may not be comparable with similarly named measures provided by other entities.

| | Nine Months Ended September 30, | | | | | |
|------------------------------|---------------------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
| | 2008 As Reported | 2008 Adjustments | 2008 Pro Forma | 2007 As Reported | 2007 Adjustments | 2007 Pro Forma |
| Sales | \$ 7,109,403 | \$ - | \$ 7,109,403 | \$ 6,008,314 | \$ - | \$ 6,008,314 |
| Cost of services | 5,164,602 | (81,729) | 5,082,873 | 4,322,505 | (67,702) | 4,254,803 |
| Gross profit | 1,944,801 | 81,729 | 2,026,530 | 1,685,809 | 67,702 | 1,753,511 |
| General and administrative | 779,849 | (20,194) | 759,655 | 631,370 | (12,636) | 618,734 |
| Defined benefit pension plan | 166,074 | - | 166,074 | 273,035 | - | 273,035 |
| Selling | 1,045,747 | (57,321) | 988,426 | 1,118,089 | (99,730) | 1,018,359 |
| Depreciation | 27,523 | - | 27,523 | 26,009 | - | 26,009 |
| Research and development | - | - | - | 88,807 | - | 88,807 |
| Total costs and expenses | 2,019,193 | (77,515) | 1,941,678 | 2,137,310 | (112,366) | 2,024,944 |
| Operating loss | (74,392) | 159,244 | 84,852 | (451,501) | 180,068 | (271,433) |
| Interest expense, net | (227,054) | - | (227,054) | (199,413) | - | (199,413) |
| Other income | - | - | - | 4,957 | - | 4,957 |
| Income tax expense | (615) | - | (615) | (605) | - | (605) |
| Net loss | \$ (302,061) | \$ 159,244 | \$ (142,817) | \$ (646,562) | \$ 180,068 | \$ (466,494) |

We recorded expense of \$38,483 and \$74,488 for equity instruments issued to consultants for the nine months ended September 30, 2008 and 2007, respectively.

Liquidity and Capital Resources

At September 30, 2008, we had cash of \$39,307 available for our working capital needs and planned capital asset expenditures. Our primary liquidity needs are the financing of working capital and capital expenditures. Our primary source of liquidity is cash provided by operations and our \$800,000 credit facility. At September 30, 2008, we had approximately \$313,000 of availability under this line and had adequate accounts receivable to use the remaining available line. During the nine months ended September 30, 2008, cash used by operating activities was \$118,860.

At September 30, 2008, we had a working capital deficit of approximately \$2.54 million and a current ratio of .34. Our objective is to improve our working capital position from profitable operations. The O&W Plan current liabilities have a significant impact on our working capital. Without the current liabilities of the O&W Plan of approximately \$2.3 million, working capital would have been a deficit of approximately \$283,000. If we incur operating losses or continue to incur net losses, we may continue to experience working capital shortages that impair our business operations and growth strategy. Based on current level of operations, we have sufficient cash flow and short-term financing sources, through sales with recourse of accounts receivable, to fund our payroll and accounts payable on a timely basis.

During 2007 and 2008, we have financed the activity of our IT Services Group through the issuance of notes payable to third parties, including related parties and financing through sales with recourse of our accounts receivable. In June 2008, we raised \$200,000 through a working capital loan from a third party.

We have used our common stock and common stock options and warrants to provide compensation to certain employees and consultants and to fund liabilities.

Future Trends

We believe that our operations, as currently structured, together with our current financial resources, will result in improved financial performance in future periods.

There is no assurance, that our current resources or cash flow from operations will be adequate to fund the liabilities under the O&W Plan if the DOT does not concur with our position or that we will be successful in raising additional working capital when necessary. Our failure to raise necessary working capital could force us to curtail operations, which would have a material adverse effect on our financial condition and results of operations.

Cash Flows from Operating Activities

During the nine months ended September 30, 2008, cash used in operations was \$118,859 compared with cash used in operations of \$29,855 for the nine months ended September 30, 2007. Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments. We bill our clients weekly or monthly after services are performed, depending on the contract terms. Our accounts receivable increased principally due to the growth of sales in the period. The increase in liabilities is primarily due to increased accounts payable and accrued pension and retirement expenses.

Cash Flows from Investing Activities

Cash used in investing activities for the nine months ended September 30, 2008 was \$17,339 compared with \$18,671 for the nine months ended September 30, 2007. Cash used in investing activities was primarily for capital expenditures for computer hardware and software. We do not have any plans for significant capital expenditures in the near future.

Cash Flows from Financing Activities

Cash provided by financing activities was \$147,225 for the nine months ended September 30, 2008 due to \$200,000 from a new working capital loan, \$16,667 from the exercise of an option for common stock offset by principal payments of \$69,442 on notes payable. In comparison, for the nine months ended September 30, 2007 we used cash from financing activities of \$16,617 principally for principal payments on notes payable. We anticipate that we will use approximately \$4,300 through the next twelve months for funding current maturities of long-term debt obligations.

Credit Agreement

We have a line of credit of up to \$800,000 with a financial institution that allows us to sell selected accounts receivable invoices to the financial institution with full recourse against us. We pay fees based on the length of time that the invoice remains unpaid. At September 30, 2008, we had approximately \$313,000 of availability under this line and had adequate accounts receivable to use the remaining available line.

We believe the capital resources available to us under our line of credit and cash from our operations are adequate 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 experience significant growth in our sales, we believe that this may require us to increase our financing line or obtain additional working capital from other sources to support our sales growth. We anticipate financing our external growth from acquisitions and our longer-term internal growth through one or more of the following sources: cash from operations; additional borrowing; issuance of equity; use of our existing revolving credit facility; or a refinancing of our credit facilities.

Osley & Whitney, Inc. Retirement Plan

As of December 31, 2004, we sold or closed all of our prior businesses. Currently, our sole business is providing IT consulting services. The following discussion of the O&W Plan relates to the business that was closed and sold and its current effect on our operations and financial position.

Prior to December 30, 2002, we owned 100% of the common stock of Osley & Whitney, Inc. (O&W). On December 30, 2002, we sold 100% of the common stock of O&W to a third party, but continued to act as the sponsor of the O&W Plan. Although we continued to act as the sponsor of the O&W Plan after the sale, during 2007 it was determined that we had no legal obligation to do so.

During 2007, we submitted information advocating this position to the Department of Treasury (DOT) to ascertain whether they concur or disagree with this position. The DOT is presently reviewing this information. If the DOT does not concur with this position, we may become obligated for additional estimated excise taxes on accumulated unfunded O&W Plan contributions for the plan years ended December 31, 2006 and 2007 of approximately \$135,000 and \$157,000, respectively, totaling \$292,000, which has not been accrued because of the determination of no legal obligation and our belief that the likelihood is remote that we will be required to pay these excise taxes. Further, if the DOT does not concur with this position, we may be required to pay interest on these excise taxes and potentially incur additional excise taxes up to 100% of all required plan contributions. No such excise taxes have been assessed and no portion of this amount has been accrued at September 30, 2008 since we believe that the likelihood is remote that we will be required to pay these excise taxes. If the DOT does not concur with this position, we intend to pursue all appropriate further avenues to prevail on our position.

If it is determined that we are responsible for O&W Plan deficiencies, then we will be required to make contributions for deficiencies in 2004 through 2008 and we will be required to fund O&W Plan deficiencies in future periods. We did not make any O&W Plan contributions in 2004, 2006, 2007 or 2008. During 2005, we made contributions valued at approximately \$181,000. We currently do not have the funds available to make the required cash contributions which currently approximate \$1.8 million. As a result of our legal position, we do not anticipate making any contributions to the Plan during the year ending December 31, 2008. We recorded defined benefit pension expense (including professional services and interest costs) of \$166,074 and \$273,035 for the nine months ended September 30, 2008 and 2007, respectively.

During 2006, the Pension Benefit Guarantee Corporation placed a lien on all of our assets to secure the contributions due to the O&W Plan. This lien is subordinate to liens that secure accounts receivable financing and certain notes payable.

At September 30, 2008, we had accrued liabilities of \$2,564,170 related to the O&W Plan and accumulated other comprehensive loss of \$2,227,689 which was recorded as a reduction of stockholders' deficiency. The market value of the O&W Plan assets decreased from \$3,387,749 at December 31, 2007 to \$2,655,620 at September 30, 2008. The decrease was due to investment losses of \$367,853, benefit payments of \$329,194 and expenses paid of \$35,082.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our president and our 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 president and our 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 president and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

PART II
OTHER INFORMATION

Item 1A. Risk Factors.

You should consider the risk factors included in our Annual Report on Form 10-KSB for the year ended December 31, 2007 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 results of the risks occur, our business, financial condition, or results of operations could be materially adversely affected.

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

On September 29, 2008, we issued 135,000 unregistered shares of our common stock to an accredited investor upon conversion of \$6,750 of accrued interest payable on outstanding notes payable in accordance with the terms of such notes.

On July 10, 2008, we issued 200,000 unregistered shares of our common stock to an accredited investor upon conversion of \$10,000 of principal on outstanding notes payable in accordance with the terms of such notes.

These transactions were exempt from registration, as they were nonpublic offerings or transactions made pursuant to Sections 4(2) and 4(6) of the Securities Act of 1933, as amended. All shares issued in the transactions described hereinabove bore an appropriate restrictive legend.

Item 6. Exhibits.

| Exhibit No. | Description |
|-------------|--|
| 31.1 | Certification of President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of President pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |

* Filed herewith

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Infinite Group, Inc.
(Registrant)

Date: November 12, 2008

/s/ Michael S. Smith
Michael S. Smith
Chief Executive Officer
(Principal Executive
Officer)

Date: November 12, 2008

/s/ James Witzel
James Witzel
Chief Financial Officer
(Principal Financial
Officer)