INFINITE GROUP INC
Form 10QSB
May 15, 2001

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

(Mark One)

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

For the Fiscal Year Ended March 31, 2001
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	52-1490422
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2364 Post Road, Warwick, RI	02886
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number (401) 738-5777

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 |X| No |_|

As of May 11, 2001 there were 4,012,272 shares of the registrant's common stock, par value $0.001 per share, outstanding.

Transitional Small Business Disclosure Format: Yes |_| No |X|

INFINITE GROUP, INC.

Form 10-QSB

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INFINITE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2001 (Unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 202,668	$ 185,901
Restricted funds	134,587	85,735
Accounts receivable, net of allowance	1,989,099	1,827.275
Inventories	708,960	482,585
Advance - stockholder	50,249	50,249
Other current assets	117,052	104,003
Total current assets	3,202,615	2,735,748
Property and equipment, net	7,139,934	7,169,794
Other assets:		
Preferred stock investment	295,000	295,000
Prepaid pension costs	716,326	726,326
Intangible assets, net	447,733	416,002
Cash surrender value of officer life insurance	--	30,464
Total other assets	1,459,059	1,467,792

	$ 11,801,608	$ 11,373,334
	============	============
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable:		
Bank	$ 999,837	$ 945,695
Stockholders	138,946	48,946
Accounts payable and accrued liabilities	2,952,607	2,475,853
Current maturities of long-term obligations	827,703	3,037,365
Current maturities of long term obligations - stockholder	61,752	55,911
	------------	------------
Total current liabilities	4,980,845	6,563,770
Long term obligations	4,290,277	2,134,934
Long term obligations - stockholder	787,930	787,514
Stockholders' equity		
Common stock, $.001 par value, 20,000,000 shares authorized 3,604,549 and 3,542,049 shares issued; 3,563,995 and 3,450,113 shares outstanding; 31,250 and 93,750 shares subscribed	3,636	3,636
Additional paid-in capital	22,653,410	22,653,410
Accumulated deficit	(20,750,606)	(20,352,590)
	------------	------------
	1,906,440	2,304,456
Less:		
Treasury stock, 40,554 and 91,936 shares, at cost	(101,384)	(229,840)
Common stock subscription receivable	(62,500)	(187,500)
	------------	------------
Total stockholders' equity	1,742,556	1,887,116
	------------	------------
	$ 11,801,608	$ 11,373,334
	============	============

See accompanying notes to unaudited consolidated financial statements.

INFINITE GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
	----	----
Sales	$ 3,409,742	$ 3,290,826
Cost of goods sold	2,380,487	2,199,810
	-----------	-----------
Gross profit	1,029,255	1,091,016
Costs and expenses		
Research and development	191,744	239,411
General and administrative expenses	571,073	626,906
Selling expenses	179,483	180,875

Depreciation and amortization	265,637	272,097
Total costs and expenses	1,207,937	1,319,289
Operating loss	(178,682)	(228,273)
Other income (expense)		
Interest expense:		
Stockholder	(31,099)	(24,127)
Other	(171,632)	(134,202)
Loss on dispositions of assets	--	(68,074)
Other income (expense)	2,220	(1,853)
Total other income (expense)	(200,511)	(228,256)
Net loss	$ (379,193)	$ (456,529)
Net loss per share - basic:	$ (0.11)	$ (0.19)
Weighted average number of common shares outstanding-basic and diluted	3,503,670	2,368,529

See accompanying notes to unaudited consolidated financial statements.

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INFINITE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
Cash flows from operating activities:		
Net loss	$(379,193)	$(456,520)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	265,637	272,097
Loss on disposition of assets	--	68,074
Amortization of discount on note payable	8,656	9,584
Asset write down and allowances	--	6,652
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(161,824)	(154,628)
Other current assets	(13,049)	32,814
Inventories	(226,375)	44,216
Prepaid pension cost	10,000	--
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	476,754	7,985
Net cash used in operating activities	(19,394)	(169,735)

Cash flows from investing activities:		
Purchase of property and equipment	(227,033)	(91,206)
Proceeds from the sale of property and equipment	--	122,900
Investment in preferred stock	--	(45,000)
Purchase of intangible assets	(48,517)	--
Proceeds from cancellation of officer life insurance policy	30,464	--
Net cash used in investing activities	(245,086)	(13,306)
Cash flows from financing activities:		
Net borrowings of notes payable	144,142	289,371
Repayments of long-term obligations	(54,319)	(206,028)
Repayments of long-term obligations - stockholder	(2,399)	(3,863)
Proceeds from the issuance of common stock, net of expenses	117,675	--
Collection of stock subscription receivable	125,000	--
Increase in restricted funds, net	(48,852)	(51,559)
Net cash provided by financing activities	281,247	27,021
Net increase (decrease) in cash and cash equivalents	16,767	(155,120)
Cash and cash equivalents - beginning of period	185,901	328,094
Cash and cash equivalents - end of period	$ 202,668	$ 172,974

See accompanying notes to unaudited consolidated financial statements.

INFINITE GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. - BASIS OF PRESENTATION

The accompanying financial statements of Infinite Group, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000, which includes audited financial statements and footnotes as of and for the years ended December 31, 2000 and 1999.

NOTE 2. - RECLASSIFICATIONS

Certain amounts in the 2000 financial statements have been reclassified to conform with the 2001 financial statement presentation.

NOTE 3. - NOTES PAYABLE

During the quarter ended March 31, 2001, the Company issued an unsecured short-term note payable to its president in the amount of $10,000. The note bears interest at the rate of 10% and remains unpaid as of March 31, 2001.

During the quarter ended March 31, 2001, the Company issued short-term notes payable to two stockholders, aggregating $80,000. The notes bear interest at the rate of 10% and remain unpaid as of March 31, 2001. Subsequent to March 31, 2001, one stockholder agreed to accept 25,486 shares of the Company's common stock in full satisfaction of a note payable and accrued interest, aggregating $50,972.

At December 31, 2000, the Company was in violation of certain bank debt covenants on term loans outstanding at its Laser Fare subsidiary. Consequently, the associated debt was classified as a current liability at December 31, 2000. Subsequent to the filing of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000, the Company received a bank waiver of the debt covenant violations that existed at December 31, 2000. Accordingly, in the March 31, 2001 financial statements the debt has been reclassified in accordance with the required maturities per the term loan agreements.

In April 2001, the Company received notice that it was in default on a principal and interest payment due April 16, 2001 in the amount of $342,240 which is owed to a former shareholder of Osley & Whitney. The notice states that the full outstanding principal and interest balance of $618,240 is due and payable. The Company is currently in discussions with the noteholder to negotiate payment terms on the outstanding balance.

NOTE 4. - STOCKHOLDERS' EQUITY

During the quarter ended March 31, 2001, the Company issued from treasury 25,000 shares of common stock to an accredited investor at a price of $2.00 per share, resulting in proceeds of $50,000. The Company also issued from treasury 21,737 shares of common stock in accordance with the equity line of credit agreement resulting in proceeds of $50,474, net of expenses of $12,026. In addition, various employees exercised stock options with exercise prices ranging from $1.50 to $2.50 per share, resulting in the issuance of 4,645 shares of common stock from treasury and proceeds of $9,160. The original cost of the above shares issued from treasury exceeded the proceeds from issuances by $18,823 in aggregate, which was charged to accumulated deficit.

NOTE 5. - BUSINESS SEGMENTS

The Company's businesses are organized, managed and internally reported as two segments. The segments are determined based on differences in products, production processes and internal reporting. All of the segments of the Company operate entirely within the United States. Revenues from customers in foreign countries are minimal. Transactions between reportable segments are recorded at cost. The Company relies on intersegment cooperation and management does not represent that these segments, if operated independently, would report the results shown.

A summary of selected consolidated information for the Company's industry segments during the periods ended March 31, 2001 and March 31, 2000, respectively, is set forth as follows:

	Laser and Photonics Group	Plastics Group	Unallocated Corporate	C
Three Months Ended March 31, 2001				
Sales to unaffiliated customers	$ 2,069,383	$ 1,340,359	$ --	$
Operating income (loss)	$ 81,958	$ (324,438)	$ 63,798	$
Three Months Ended March 31, 2000				
Sales to unaffiliated customers	$ 1,697,581	$ 1,593,245	$ --	$
Operating income (loss)	$ (64,803)	$ 23,422	$ (186,892)	$

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NOTE 6. - SUBSEQUENT INFORMATION

The Company is required to meet certain minimum financial conditions in order to maintain NASDAQ Small Cap market listing. In November 2000, the Company received notification from NASDAQ that it no longer met the minimum $2 million net tangible asset criteria for continued listing. Pursuant to the terms of an extension agreement with NASDAQ to demonstrate compliance with the minimum net tangible asset test as of April 30, 2001, the Company is providing the following unaudited balance sheet prepared by management as of March 31, 2001 with estimated proforma adjustments reflecting certain transactions from March 31, 2001 through April 30, 2001.

ASSETS	March 31, 2001	Unaudited Proforma Adjustments	Apri 20
Current assets	$ 3,202,615	$ 250,923(3)	$ 3,4
Fixed assets, net	7,139,934	(85,000)(4)	7,0
Goodwill	110,226	(3,000)(4)	1
Other long term assets	1,348,833		1,3
Total assets	$ 11,801,608		$ 11,9
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities	$ 4,980,845	$ 12,000(4)	$ 4,9
Long term liabilities	5,078,207	(567,161)(1)(2)	4,5
Total liabilities	10,059,052		9,5
Common stock	3,636	420(1)(2)(3)	

Paid-in capital	22,653,410	817,664(1)(2)(3)	23,4
Accumulated deficit	(20,750,606)	(100,000)(4)	(20,8
	1,906,440		2,6
Less:			
Treasury stock	(101,384)		(1
Subscription receivable	(62,500)		(
Total stockholders' equity	1,742,556		2,4
Total liabilities and stockholders' equity	$ 11,801,608		$ 11,9

Description of proforma adjustments:

(1) Release from capital lease obligation and related accrued interest aggregating to $448,831 due to the Company's president. The Company's president contributed equipment owned by him to the Company in exchange for 225,000 shares of common stock. This equipment was subject to a lease accounted for as a capital lease. As a result, no further payments are due under the lease.

NOTE 6. - SUBSEQUENT INFORMATION (CONTINUED)

(2) Conversion of notes payable and related accrued interest to former Osley and Whitney, Inc. shareholders (aggregating $118,330), into 63,963 shares of common stock.

(3) Proceeds of $250,923 from the issuance of 131,514 shares of common stock to various individual investors in private placement transactions.

(4) The Company's operations for the month of April 2001 are estimated to result in a loss of $100,000, which includes an estimated $88,000 of depreciation and amortization expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-QSB are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 regarding the plans and objectives of management for future operations. You can identify these forward-looking statements by our use of the words "believes," "anticipates," "plans," "expects," "may," "will," "intends," "estimates" and similar expressions, whether in the negative or affirmative. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company 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 its 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. Factors that could cause actual results to differ materially from those expressed or implied by forward -looking statements include, but are not limited to, the factors set forth in "Certain Factors That May Affect Future Growth," under Part I, Item 1, of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000 as filed with the Securities and Exchange Commission. In light of the significant uncertainties inherent in the forward-looking statements included herein particularly in view of our early stage operations, the inclusion of such information should not be regarded by us or any other person that the objectives and plans of the Company will be achieved.

OUR BUSINESS

Our business has two segments, the Laser and Photonics Group and the Plastics Group. We sell products and services in the fields of material processing, advanced manufacturing methods, high productivity production mold building and laser-application technology. We have approximately 140 employees.

Our Laser and Photonics Group, comprised of Laser Fare (Smithfield, RI), Mound Laser & Photonics Center (Miamisburg, OH), MetaTek, Inc. (Albuquerque, NM) and the Advanced Technology Group (Narragansett, RI), provides comprehensive laser-based materials processing services to leading manufacturers. During the quarter ended March 31, 2001, we formed Infinite Photonics, Inc., which is charged with developing the manufacturing and marketing of our proprietary GCSEL laser diodes.

Our Plastics Group, comprised of Osley & Whitney/ ExpressTool (Westfield, MA), Materials &

Manufacturing Technologies (West Kingston, RI) and Express Pattern (Buffalo Grove, IL), provides rapid prototyping services and proprietary mold building services.

Since the Company's acquisition of LF in 1994 and MLPC in 1998, the Company's operations have primarily consisted of contract research and development for applied photonics, advanced laser and photonics technologies, and traditional laser welding, machining, drilling and engraving manufacturing services. In addition, MLPC and LF's Advanced Technology (ATG) divisions specialize in applied photonics research for governmental and commercial customers, if the research is reasonably expected to result in a commercially viable product for an Infinite unit. To meet aerospace and medical device customer needs, Laser Fare is certified for overhaul and repair by the Federal Aviation Administration (FAA No. LQFR37K), and as a Contract Manufacturer (Type E) by the Food and Drug Administration (FDA No. 1287338).

One of our research projects conducted with Hasbro, Inc. resulted in the formation of ExpressTool (ET) in 1996, which began the Plastics Group. As a result of that research, ET was formed for the purpose of commercializing the technology developed in business areas unrelated to Hasbro's operations. In April 1999, we acquired Osley & Whitney (O&W), a 50-year-old moldbuilder and we integrated ET into the production process at O&W. We formed Express Pattern (EP) in April 1999 to allow customers' design engineers to produce rapid prototype parts.

During 2000, ATG completed initial prototype testing of proprietary grating coupled surface emitting laser (GCSEL) diode technology and furthered initial patent applications on the technology. Shortly after year-end, the Company formed Infinite Photonics, Inc. to begin commercialization of the technology for telecommunications and other applications.

We continue to experience operating losses in 2001, due primarily to delays at LF in the receipt of materials for aerospace and jet engine parts. Falling demand for plastic products due to the rapid increase in petroleum prices in 2000, resulted in reduced demand for our injection molds and O&W/EP profitability suffered. These losses resulted in reductions in cash flow, increased borrowings from banks and an increased negative working capital position. Management is focused on our two primary lines of business and is actively pursuing additional capital through the equity line of credit agreement, private equity sources, strategic alliances, venture capital and investment banking sources.

During 2001, our management continues to investigate and implement strategies aimed at developing the applied photonics segment of our business. These included LF-ATG expending approximately $0.2 million in funds for research and development of GCSEL technology, and high temperature superconductor applications initially developed by LF-ATG. We are currently involved in discussions with Fortune 500 companies, which would provide funding and additional revenue sources for the formation of strategic partnerships. In March 2000, we formed a strategic alliance with Cutting Edge Optronics, Inc., a subsidiary of TRW, for prototype and pilot manufacture of our GCSEL laser diodes. In May 2001, we were notified that the Defense Advanced Research Projects Agency (DARPA) had awarded us a one-year $1.0 Million contract in support of our proprietary GCSEL development.

We were incorporated under the laws of the state of Delaware on October 14, 1986. On January 7, 1998, we changed our name from Infinite Machines Corp. to Infinite Group, Inc. Our principal executive offices are located at 2364 Post Road, Warwick, RI 02886 and our facsimile number is (401) 738-6180. Our subsidiaries are located in Rhode Island, Massachusetts, New Mexico, Ohio and Illinois. We maintain sites on the World Wide Web at www.infinite-group.com, www.laserfare.com, www.infinitephotonics.com, www.expresstool.com and www.expresspattern.com. Information contained on any of our websites do not constitute a part of this Form 10-QSB.

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RECENT DEVELOPMENT

The Equity Line of Credit Agreement

On November 20, 2000 we entered into an equity line of credit agreement with Cockfield Holdings Limited. The purpose of the equity line of credit is to provide us with a source of funding for our current activities and for the development of our current and planned products. The equity line of credit agreement establishes what is sometimes referred to as an equity drawdown facility. Under the equity line of credit agreement we have the right to sell to Cockfield up to 3,000,000 shares of our common stock.

Under the equity line of credit agreement, Cockfield has agreed to purchase up to 3,000,000 shares of our common stock during the 36-month period following the effective date of the registration statement. During this 36-month period, we may request a drawdown under the equity line of credit by selling shares of our common stock to Cockfield, and Cockfield will be obligated to purchase the shares we put to them. The minimum amount we can draw down at any one time is $200,000. The maximum amount we can draw down at any one time will be determined at the time of the drawdown request under a formula contained in the equity line of credit agreement, but cannot be more than $5,000,000. We may request a drawdown once every 20 trading days, although we are under no obligation to request any drawdowns.

In order to exercise our drawdown rights under the equity line of credit agreement, we must have an effective registration statement on file with the Securities and Exchange Commission registering the resale of the shares of our common stock that may be sold to Cockfield. We must also give at least 20 business days advance notice to Cockfield of the date on which we intend to exercise a particular put right and we must indicate the maximum number of shares of our common stock that we intend to sell to Cockfield. At our option, we may also designate a maximum dollar amount of our common stock that we will sell under the put and/or a minimum purchase price per share at which Cockfield may purchase shares under the put. The maximum amount may not to exceed the lesser of a) $5,000,000 or b) fifteen percent (15%) of the weighted average price of our common stock during the 20 trading days immediately prior to the put date, multiplied by the total trading volume of our common stock during the 20 trading days immediately prior to that date.

During the 20 trading days following a drawdown request, we will calculate the number of shares we will sell to Cockfield and the price per share. The purchase price per share of common stock will be at a discount to the daily volume weighted average price of our common stock during the 20 trading days immediately following the drawdown date. On each of the 20 trading days during the calculation period, the number of shares to be purchased by Cockfield will be determined by dividing 1/20th of the drawdown amount by the purchase price on each trading day. If we designate a minimum purchase price in our drawdown request and the daily volume weighted average price for our common stock on any trading day during the 20 trading day calculation period is below the minimum threshold price, and Cockfield elects not to purchase shares at the minimum threshold price, then the drawdown amount will be reduced by 1/20th.

For each share of our common stock, Cockfield will pay us 87.5% of the volume-weighted market price for a share of our common stock during the 20-day trading period following the exercise of a put. The percentage will increase to 90% if we move our principal market to the Nasdaq National Market or to 91% if we move our principal market to the New York Stock Exchange. It will decrease to 84% if our common stock is delisted from the Nasdaq SmallCap Market. Market price is defined as the volume weighted average price for our common stock (as reported by Bloomberg Financial LP using its VAP function) on its principal market during the pricing period. The pricing period is defined as the 20 day trading period immediately prior to the day we exercise our put right.

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Cockfield will pay for the shares on the 22nd trading day following the drawdown request. We will receive the purchase price less a brokerage fee payable to Jesup & Lamont ranging between 4.25% and 4.75% of the aggregate purchase price, depending on the dollar volume of the transaction. Jesup & Lamont is the placement agent that introduced Cockfield to us and is a registered broker-dealer.

At the closing of each drawdown, we will also grant Cockfield warrants to purchase a number of shares of our common stock equal to 33% of the number of shares purchased by Cockfield at the closing of the drawdown. These unit warrants will expire one day after they are granted and will have an exercise price equal to the weighted average of the purchase price of a share of our common stock purchased at the closing of each drawdown. The 3,000,000 shares available under the equity line of credit will be reduced by the number of shares issued as a result of the exercise of these unit warrants.

The equity line of credit agreement prevents us from drawing down funds and issuing the corresponding shares of common stock to Cockfield if the issuance would result in Cockfield beneficially owning more than 9.9% of our then outstanding shares of common stock. In addition, the listing requirements of the Nasdaq SmallCap Market prohibit us from issuing 20% or more of our issued and outstanding shares of common stock in a single transaction at a price less than the greater of market value or book value unless we get stockholder approval. At our annual meeting held on March 22, 2001, our stockholders approved the issuance of the shares of our common stock contemplated by the equity line of credit agreement.

As consideration for establishing the equity line of credit, we granted Cockfield warrants to purchase up to 200,000 shares of our common stock. As consideration for the services rendered by Jesup & Lamont as placement agent in connection with the equity line of credit, we granted Jesup & Lamont warrants to purchase up to 100,000 shares of our common stock. These warrants, covering 300,000 shares of our common stock, are exercisable at any time prior to November 20, 2003, for $3.135 per share.

On February 8, 2001, we issued a drawdown notice to Cockfield. This notice offered to sell up to $250,000 of our common stock to Cockfield based on the formula in the stock purchase agreement, during the 20 trading day period beginning on February 9, 2001 and ending on March 9, 2001, but at not less than $3.00 per share. During this period, Cockfield purchased a total of 21,737 shares of our common stock at an average net purchase price of $2.8753 per share. These purchases resulted in aggregate proceeds of $62,500 being paid and released from escrow to us by Cockfield. Jesup & Lamont Securities Corporation received $2,969 as a placement fee in connection with this draw.

THE LASER AND PHOTONICS GROUP

Our Laser Fare (LF) subsidiary is primarily engaged in contract laser material processing; however it also develops new applications for industrial lasers. Laser Fare has 23 high-powered computer controlled lasers that are capable of performing a wide variety of manufacturing with multi-axis manipulation. Laser Fare also manufactures stents and complete assemblies for selective medical product companies. Approximately 75% of Laser Fare's sales come from customers in the medical device, aerospace and power generation industries. Customers include General Electric, United Technologies, Honeywell, Polaroid, Stryker Medical and Dey Laboratories. Through Laser Fare we also provide a variety of value-added services, that include assembly, heat treating, coating, testing and inspection. We quote orders through traditional sales methods as well as through our Web site at www.laserfare.com. Laser Fare is certified for overhaul and repair by the Federal Aviation Administration (FAA No. LQFR37K), and as a Contract Manufacturer (Type E) by the Food and Drug Administration (FDA No. 1287338).

Our Mound Laser and Photonics Center (MLPC) subsidiary specializes in laser applications, photonics applications and materials processing, and provides services within industry, government and education sectors. The midwest location, a region long known for its expertise in materials and material science, gives us a platform for growth into the automotive, aerospace, tool and die and other local industries. Specialized services include growth of thin films by pulsed laser deposition, application of lasers to chemistry and photochemistry, spectroscopy, and applied optics. MLPC has applied for a provisional patent on pulsed laser deposition. The combination of Laser Fare's expertise in materials processing and MLPC's expertise in laser and photonics applications creates a synergistic atmosphere for the advancement of laser materials processing and the development and commercialization of new laser-based technology.

In June 2000, our MLPC subsidiary was awarded a $100,000 Phase 1 Small Business Innovative Research (SBIR) contract from the Air Force Research Laboratory (AFRL). The SBIR is for work on the laser deposition of High Temperature Superconductors (HTS). The work is based on recent developments at our MLPC subsidiary in laser micromachining and fabrication technology. AFRL's Materials and Manufacturing Directorate (AFRL/ML) possesses novel HTS process technology and has developed complementary substrate preparation technology.

Our Advanced Technology Group (ATG) conducts research and development programs for industrial and government sponsors. ATG has recently been awarded several contracts and subcontracts sponsored by the Defense Advanced Research Project Agency (DARPA). DARPA is the central research and development organization for the Department of Defense. It manages and directs selected basic and applied research and development projects for the Department of Defense, and pursues research and technology where risk and payoff are both very high and where success may provide dramatic advances for traditional military roles and missions and dual-use commercial applications. As it effects ATG, these programs have been focused on laser driven direct write technologies. Laser direct technologies enable cost-effective manufacturing of engineered components without the use of expensive tooling by directly depositing materials on substrates with laser energy. Active and passive devices for electronic and photonic applications can be manufactured this way as well as a wide variety of sensors, Micro Electro Mechanical Systems ("MEMS") and actuators. These technologies have applications across a broad range of industries that utilize electronic and photonic materials (including telecommunications, automotive and consumer electronics).

ATG has a consulting arrangement with Tensegra Inc. of Cambridge, MA. Tensagra is creating technologies using synthetic biomimetic materials with the mechanical responsiveness of living cells and tissues and applying these technologies to medical, industrial and military applications. Our Advanced Technology Group will utilize Laser Fare's and ExpressTool's proprietary techniques to fabricate structures for Tensegra.

Triton Systems of Chelmsford, MA contracts with our Advanced Technology Group to laser fabricate aerospace components from metal matrix composite materials. These are strong lightweight materials that are used in aerospace engines.

In May 2000, our Advanced Technology Group was awarded a contract from MIOX Corporation in support of their award from DARPA for small portable water purification system that can be carried by a soldier in the field. The system will provide filtered, desalinated, and disinfected water in sufficient quantity to supply a single soldier, from natural water sources, including saltwater. We will apply our knowledge of classical manufacturing and additive direct write techniques to enable the cost effective manufacturing of these devices.

In June 2000, ATG was awarded a contract from the State University of New York (SUNY) at Stony

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Brook in support of their award from DARPA for thermally sprayed direct write sensors. The Center for Thermal Spray Technology at SUNY-Stony Brook is a

National Science Foundation Materials Research Science and Engineering Center. The Center conducts both basic and applied research in thermal spray materials and processes and has a broad base of industrial support. It is recognized as a world leader in thermal spray technology. This high energy direct write approach will create a new family of sensors and sensor enabled MEMS that will be able to function in harsher environments than today's devices. Our successful completion of this work will open new markets for these devices ranging from aerospace and automotive to telecommunications.

THE PLASTICS GROUP

In April 1999, we acquired 100% of the outstanding capital stock of Osley & Whitney, Inc. (O&W), a privately held Massachusetts corporation, from its stockholders for approximately $1.5 million payable in cash and notes. O&W is a fifty-year-old plastic injection moldbuilding company located in Westfield, MA with approximately 54 employees. It serves a blue-ribbon clientele of automotive, automotive aftermarket, consumer sporting goods, and office machine companies including Polaroid, Pitney-Bowes, Hardigg Industries, and others, from its 21,500-sq. ft. manufacturing facility. Our proprietary mold fabrication and conformal cooling technologies lower the cost of molded parts, increase molding capacity and provide shorter delivery times over conventional constructed molds. This compliments our established expertise in the moldbuilding industry. O&W has achieved preferred vendor status with Pitney Bowes, Hardigg Industries and others.

ExpressTool (ET) was integrated into our Westfield facility and separate facilities in Warwick, RI were closed to reduce cost and improve productivity. The ExpressTool process incorporates its conformal cooling and proprietary thermal management for high production injection mold tooling to allow molds used in the plastic fabrication industries to cool and eject parts up to 75% faster than traditional molds. ET accepts 3-D design computer files directly over the Internet from our customers who use such software as AutoCad, Pro-E, Solidworks and Cadkey. ExpressTool is shipping mold inserts to such customers as Cheeseborough Pond, 3M and GE Plastics among others. In April 1999, we formed Express Pattern (EP) located in Buffalo Grove, IL to expand our midwest presence and provide plastic rapid prototyping services to the metal casting industries. Express Pattern ships plastic prototype parts to Allen-Bradley, Paradigm, Rolls-Royce Allison, Motorola, Hewlett-Packard and others. In addition to quotations and prototype part production from traditional blueprints, EP provides direct interface (including uploads over the internet) from customer CAD software (such as AutoCad, Pro-E and others) to our stereolithography systems and equipment. Express Pattern also provides similar services to our other subsidiaries.

Also in April 1999, we acquired 100% of the outstanding stock of Materials & Manufacturing Technologies, Inc. (MMT) of West Kingston, Rhode Island in exchange for 20,000 shares of Infinite Group common stock. MMT has received a patent, number 5,427,987, from the United States patent office on its work in zirconium diboride materials. MMT has an exclusive licensing arrangement with Texas A&M University (with rights to sub-license) for use of patents and intellectual property owned by Texas A&M in the area of electrodes and parts made from zirconium diboride/cooper (Zyrkon(TM)) composites. Zyrkon(TM) composite electrodes have been shown to be superior to copper, tungsten/copper and graphite electrodes in electrical discharge machining applications. In addition, parts made from Zyrkon(TM) exhibit excellent abrasion resistance and resistance to wear by electric arcs as well as high thermal conductivity and a relatively low coefficient of thermal expansion. These properties indicate that Zyrkon(TM) can be used to replace current material systems in applications as varied as injection mold tooling, spot-welding, waste remediation electrodes, high-current switches and heat sinks. The acquisition provides us with the ability to take advantage of these material systems in our areas of expertise as well as providing us with the ability to address new markets.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its product development activities through a series of private placements of debt and equity securities. As of March 31, 2001, we had cash and cash equivalents of approximately $202,668 available for our working capital needs and planned capital asset expenditures.

While the majority of the revenues realized as of March 31, 2001 were attributed to our LF and O&W operations, we anticipate improved revenue from our other divisions and positive results from additional expense containment measures that have been implemented. We anticipate that our equity line of credit, as well as other strategies for raising additional working capital through debt and/or equity transactions will provide improved liquidity. In the first quarter of 2001, $250,469 of proceeds were received from the sale of equity comprised of (a) two installment payments under the subscription agreement totaling $ 137,969, with interest, (b) a drawdown under the equity line with Cockfield of $62,500, and (c) a private placement of $50,000. Additional private placements of $250,000 and conversion of a capital lease obligation to our principal shareholder of $448,830 to stockholders' equity was completed in early April 2001.

As of March 31, 2001, we had a working capital deficit of $1,778,230. In conjunction with our on-going business expansion program, we are pursuing alternative sources of funding from conventional banking institutions as well as exploring the availability of government funds in the form of revenue bonds for the purchase of equipment and facilities, among others. There is no assurance, however, that our current resources will be adequate to fund our current operations and business expansion or that we will be successful in raising additional working capital. 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.

Risk of Nasdaq Delisting. Our common stock is currently traded on the Nasdaq SmallCap Market. In order to maintain this listing, we are required to meet certain requirements relating to our stock price and our net tangible assets. If we fail to meet these requirements, our stock could be delisted. We have received a series of letters from Nasdaq that we failed to satisfy the minimum net tangible asset listing requirements for the SmallCap Market. As a result of private placement transactions consummated after December 31, 2000, and after March 31, 2001, we believe we are currently in compliance with the net tangible asset requirement. However, we cannot assure you that Nasdaq will agree or that we will continue to satisfy the Nasdaq SmallCap Market listing requirements. If our stock is delisted, it will trade on the OTC Bulletin Board or in the "pink sheets" maintained by the National Quotation Bureau Incorporated. As a consequence of such delisting, an investor could find it more difficult to dispose of or to obtain accurate quotations as to the market value of our securities. Among other consequences, delisting from Nasdaq may cause a decline in the stock price and difficulty in obtaining future financing.

Results of Operations

Laser and photonics group

Revenues from our laser material processing, value added services, advanced technology consulting and laser and photonics services for the quarter ended March 31, 2001 were $2,069,383, ($1,697,581 at March 31, 2000) with a gross profit for the period of $860,381 ($642,967 at March 31, 2000).

Plastics group

Revenues from our plastic moldbuiding, conformal cooling and proprietary thermal management of high production injection mold tooling, plastic rapid prototyping services and electrodes and parts made from zirconium diboride/copper (Zykron(TM)) composites for quarter ended March 31, 2001 were $1,340,359, ($1,593,245 at March 31, 2000) with a gross profit for the period of $168,874 ($448,049 at March 31, 2000).

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Consolidated revenues for the three months ended March 31, 2001 were $3,409,742, on cost of sales of $2,380,487, resulting in a gross profit of $1,029,255 for the quarter. Consolidated revenues for the three months ended March 31, 2000 were $3,290,826 on cost of sales of $2,199,810, resulting in a gross profit of $1,091,016. The increase of $118,916 or 3.6% in consolidated revenues for the quarter ended March 31,2001, compared to the quarter ended March 31, 2000, was due to a general increase in a general increase in revenues associated with the Laser Group.

Research and development expenses were $191,744 for the three months ended March 31, 2001 as compared to $239,411 for the three months ended March 31, 2000. The decrease of $47,667 or 19.9%, was primarily attributed to cost containment for research and development efforts in our plastics group, as separate Express Tool facilities were integrated into our O&W Westfield operations.

General and administrative expenses were $571,073 for the three months ended March 31, 2001 as compared to $626,906 for the three months ended March 31, 2000. The decrease of $55,833, or 8.9%, was primarily attributed to executive and administrative salary reductions throughout the company.

Selling expenses were $179,483 for the three months ended March 31, 2001 as compared to $180,875 for the three months ended March 31, 2000.

Depreciation and amortization expense totaled $265,637 for the three months ended March 31, 2001 as compared to $272,097 for the three months ended March 31, 2000.

Interest expense was $202,731 for the three months ended March 31, 2001 as compared to $158,329 for the three months ended March 31, 2000. The increase of $44,402, or 28%, was due to interest paid on the note payable to our president, and debt obligations related to the O&W acquisition.

The loss from operations was $379,193 for the three months ended March 31, 2001 as compared to a loss of $456,529 for the three months ended March 31, 2000. The decrease of $77,336, or 16.9%, was primarily attributed to cost containment throughout the company.

Part II - Other information

Item 4. Submission Of Matters To A Vote Of Security Holders

On March 22, 2001, we held our annual meeting of stockholders pursuant to notice. At such meeting, the following directors were elected to hold office until the 2001 annual meeting of stockholders or until their successors are duly elected and qualified: Clifford G. Brockmyre II, Michael S. Smith, J. Terence Feeley, William G. Lyons III, and Brian Q. Corridan (2,837,497 votes in favor and 35,216 against). Further, the proposal to approve the issuance of up to 3,300,000 under the equity line of credit agreement was approved (1,598,831 votes in favor and 57,848 votes against) and the appointment of McGladrey & Pullen, LLP, as our auditors for the 2000 fiscal year was ratified (2,860,517 votes in favor and 31,080 votes against).

SIGNATURES

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

May 14, 2001

INFINITE GROUP, INC.

By: /s/ Clifford G. Brockmyre

Clifford G. Brockmyre, President
And Chief Executive Officer

By: /s/ Bruce J. Garreau

Bruce J. Garreau
Chief Financial Officer
(principal accounting officer)