INFINITE GROUP INC
Form 10QSB
November 14, 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 Nine Month Period Ended September 30, 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 November 14, 2001 there were 4,488,517 shares of the registrant's common stock, par value $0.001 per share, outstanding.

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

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INFINITE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2001 (Unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,765	$ 185,901
Restricted funds	64,092	85,735
Accounts receivable, net of allowance	1,919,947	1,827,275
Inventories	417,659	482,585
Advance - stockholder	53,454	50,249
Other current assets	179,496	104,003
Total current assets	2,735,413	2,735,748
Property and equipment, net	7,156,117	7,169,794
Other assets:		
Preferred stock investment	295,000	295,000
Prepaid pension costs	696,326	726,326
Intangible assets, net	812,957	416,002
Other	--	30,464
Total other assets	1,804,283	1,467,792
	$ 11,695,813	$ 11,373,334
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		

Notes payable:		
Bank	$ 780,924	$ 945,695
Stockholders	162,946	48,946
Accounts payable and accrued liabilities	3,245,331	2,475,853
Current maturities of long term obligations	1,229,766	3,037,365
Current maturities of long term obligations - stockholder	16,054	55,911
Total current liabilities	5,435,021	6,563,770
Long term obligations	3,863,782	2,134,934
Long term obligations - stockholder	424,587	787,514
Stockholders' equity		
Common stock, $.001 par value, 20,000,000 shares authorized 4,398,517 and 3,542,049 shares issued; 4,398,517 and 3,450,113 shares outstanding; 0 and 93,750 shares subscribed	4,399	3,636
Additional paid-in capital	24,127,316	22,653,410
Accumulated deficit	(22,159,292)	(20,352,590)
Less:	1,972,423	2,304,456
Treasury stock, 0 and 91,936 shares, at cost		(229,840)
Common stock subscription receivable	--	(187,500)
Total stockholders' equity	1,972,423	1,887,116
	$ 11,695,813	$ 11,373,334

See accompanying notes to unaudited consolidated financial statements.

INFINITE GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Se	
	2001	2000	2001	2
Sales	$ 3,338,383	$ 3,002,473	$ 10,606,359	$ 9,
Cost of goods sold	2,465,923	1,962,747	7,824,147	6,
Gross profit	872,460	1,039,726	2,782,212	3,
Costs and expenses				
Research and development	236,470	265,027	404,722	
General and administrative expenses	772,708	652,800	2,290,513	1,
Selling expenses	156,539	172,235	503,256	
Depreciation and amortization	352,219	296,260	884,849	

Total costs and expenses	1,517,936	1,386,322	4,083,340	4,
Operating loss	(645,476)	(346,596)	(1,301,128)	(
Other income (expense)				
Interest expense:				
Stockholder	(25,041)	(23,621)	(86,027)	
Other	(60,671)	(178,192)	(372,566)	(
Gain (loss) on dispositions of assets	179	--	179	
Other income (expense)	(6,752)	46,197	(3,818)	
Total other income (expense)	(92,285)	(155,616)	(462,232)	(
Net loss	$ (737,761)	$ (502,212)	$ (1,763,360)	$(1,
Net loss per share - basic and diluted	$ (0.17)	$ (0.16)	$ (0.44)	$
Weighted average number of common shares outstanding- basic and diluted	4,389,251	3,070,296	3,989,547	2,

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net loss	$(1,763,360)	$(1,487,934)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	884,849	851,264
(Gain) loss on disposition of assets	(179)	67,274
Amortization of discount on note payable	25,778	27,355
Expenses satisfied via issuance of debt or equity instrument	29,200	42,500
Asset write down and allowances	--	6,652
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(92,672)	(207,938)
Inventories	64,926	(63,794)
Other current assets	(75,493)	12,364
Prepaid pension cost	30,000	--
Increase in liabilities:		
Accounts payable and accrued liabilities	830,442	423,972

Net cash used in operating activities	(66,509)	(328,285)
Cash flows from investing activities:		
Repayment of note receivable	--	204,716
Advance to stockholder	(3,205)	(235)
Purchase of property and equipment	(470,763)	(447,457)
Proceeds from the sale of property and equipment	1,000	122,900
Investment in preferred stock	--	(45,000)
Purchase of intangible assets	(431,255)	--
Proceeds from cancellation of officer life insurance	30,464	--
Net cash used in investing activities	(873,759)	(165,076)
Cash flows from financing activities:		
Net borrowings of notes payable	29,845	729,865
Repayments of long term obligations	(362,751)	(775,114)
Net repayments of long term obligations - stockholder	(9,644)	(8,964)
Proceeds from the issuance of common stock, net of expenses	988,539	317,962
Collection of subscription receivable	187,500	--
Decrease in restricted funds, net	21,643	10,864
Net cash provided by financing activities	855,132	274,613
Net decrease in cash and cash equivalents	(85,136)	(218,748)
Cash and cash equivalents - beginning of period	185,901	328,094
Cash and cash equivalents - end of period	$ 100,765	$ 109,346

See accompanying notes to unaudited consolidated financial statements.

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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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 and nine-month periods ended September 30, 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, as well as amounts reported as of June 30, 2001, have been reclassified to conform with the September 30, 2001 financial statement presentation.

NOTE 3. - PRONOUNCEMENTS ISSUED NOT YET ADOPTED

In July 2001, the Financial Accounting Standards Board issued two statements - Statement 141, Business Combinations, and Statement 142, Goodwill and Other Intangible Assets, which will potentially impact the Company's accounting for its reported goodwill and other intangible assets.

Statement 141:

- Eliminates the pooling method for accounting for business combinations;
- Requires that intangible assets that meet certain criteria be reported separately from goodwill; and
- Requires negative goodwill arising from a business combination to be recorded as an extraordinary gain.

Statement 142:

- Eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life; and
- Requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life.

Upon adoption of these Statements, the Company is required to:

- Re-evaluate goodwill and other intangible assets that arose from business combinations entered into before July 1, 2001. If the recorded other intangibles assets do not meet the criteria for recognition, they should be reclassified to goodwill. Similarly, if there are other intangible assets that meet the criteria for recognition but were not separately recorded from goodwill, they should be reclassified from goodwill.
- Reassess the useful lives of intangible assets and adjust the remaining amortization periods accordingly.
- Write-off any remaining negative goodwill.

The Company has not yet completed its full assessment of the effects of these new pronouncements on its financial statements and,accordingly, is uncertain as to the impact. The standards generally are required to be implemented by the Company in its 2002 financial statements.

NOTE 4. - NOTES PAYABLE - STOCKHOLDERS

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 September 30, 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%. During the quarter ended June 30, 2001, one stockholder agreed to accept 25,486 shares of the Company's common stock as satisfaction of the note payable and accrued interest, aggregating $50,972. Also, during the quarter ended June 30, 2001, the other stockholder agreed to accept 16,268 shares of the Company's common stock as satisfaction of the other note payable and accrued interest, aggregating $32,536.

During the quarter ended September 30, 2001, the Company issued unsecured short-term notes payable to its president and a stockholder in the amount of $84,000 and $20,000, respectively. Both notes bear interest at 10% and both remain unpaid at September 30, 2001.

NOTE 6. - LONG TERM OBLIGATIONS

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 September 30, 2001 financial statements, the debt has been reclassified in accordance with the stated maturities in 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 stated that the full outstanding principal and interest balance of $618,240 is due and payable. The Company is currently in discussion with the noteholder to negotiate payment terms on the outstanding balance. The entire amount is classified as a current liability as of September 30, 2001.

During the quarter ended September 30, 2001, the Company entered into a capital lease obligation in the amount of $375,000 for stereolithography equipment at its Express Pattern, Inc. subsidiary. The lease provides for 48 monthly principal and interest payments of approximately $8,700.

NOTE 7. - LONG TERM OBLIGATIONS - STOCKHOLDER

During the quarter ended June 30, 2001, the Company was released from a capital lease obligation and related accrued interest aggregating to $448,830 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 8. - 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 its 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, resulting in a loss charged to accumulated

deficit.

During the quarter ended June 30, 2001, the Company sold 306,028 shares of the common stock to accredited investors at prices ranging from $1.88 to $2.00 per share, resulting in proceeds of $599,900. The Company issued 40,554 of these shares of common stock from treasury with an original cost exceeding the proceeds from issuances by $22,609, which was charged to accumulated deficit. In connection with these transactions, the Company granted 35,400 warrants to purchase common stock at prices ranging from $3.00 to $4.00 per share. The warrants became exercisable on June 15, 2001 and expire on June 15, 2004. In addition, during the second quarter employee stock options with exercise prices ranging from $1.88 to $2.50 per share were exercised, resulting in the issuance of 1,228 shares of the Company's common stock and proceeds of $2,875.

During the quarter ended June 30, 2001, convertible notes payable to former Osley & Whitney, Inc. shareholders, along with accrued interest and other outstanding liabilities, aggregating $119,131 were converted into 63,963 shares of the Company's common stock.

During the quarter ended September 30, 2001, the Company sold 137,500 shares of the common stock to accredited investors at prices ranging from $2.00 to $2.25 per share, resulting in proceeds of $270,000, net of expenses of $30,000. In addition, during the third quarter employee stock options with exercise prices from $1.00 to $1.50 per share were exercised, resulting in the issuance of 27,800 shares of common stock. Further, in lieu of a cash payment in the amount of $29,200, the Company reduced an outstanding employee related liability to the individual.

NOTE 9. - BUSINESS SEGMENTS

Business segments are determined based on differences in products, production processes and internal reporting. The Company's businesses were previously organized, managed and internally reported as two segments. During the quarter ended June 30, 2001, the Company formed Infinite Photonics, Inc., a majority owned subsidiary to commercialize production of grating coupled surface emitting laser (GCSEL) diodes. As a result of the formation of this entity a third business segment was established. 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 September 30, 2001 and September 30, 2000, respectively, is as follows:

	Laser Group	Photonics Group	Plastics Group	Unallocated Corporate
Three Months Ended Sept. 30, 2001				
Sales to unaffiliated customers	$ 1,923,920	$ 394,584	$ 1,019,879	$ --
Operating loss	$ (35,062)	$ (114,990)	$ (349,451)	$ (145,973)
Three Months Ended Sept. 30, 2000				
Sales to unaffiliated customers	$ 1,407,810	$ --	$ 1,594,663	$ --
Operating loss	$ (93,519)	$ --	$ (105,017)	$ (148,060)

Nine Months Ended Sept. 30, 2001				
Sales to unaffiliated customers	$ 5,870,843	$ 535,794	$ 4,199,722	$ --
Operating income (loss)	$ 155,642	$ (427,886)	$ (891,963)	$ (136,921)
Nine Months Ended Sept. 30, 2000				

Sales to unaffiliated customers	4,732,199	$ --	$ 4,754,939	$ --
Operating loss	$ (284,949)	$ --	$ (57,457)	$ (566,787)

NOTE 10. - SUBSEQUENT EVENTS

Subsequent to September 30, 2001, the Company issued unsecured short-term notes payable to its president and a stockholder in the amount of $37,000 and $10,000 respectively. The notes bear interest at 10%.

During November 2001, the Company sold 90,000 shares of the common stock to accredited investors for $1.25 per share, resulting in proceeds of $112,500.

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 three segments, the Laser Group, the Photonics Group and the Plastics Group. We sell products and services in the fields of material processing, advanced manufacturing methods, GCSEL diode manufacturing and laser-application technology. We have approximately 140 employees.

Our Laser Group, comprised of Laser Fare ("LF"-Smithfield, RI), Mound Laser & Photonics Center ("MLPC"-Miamisburg, OH), and the Advanced Technology Group ("ATG"-Narragansett, RI), provides comprehensive laser-based materials processing services to leading manufacturers.

Our Plastics Group, comprised of Osley & Whitney/ ExpressTool ("OW"-Westfield, MA), Materials & Manufacturing Technologies ("MMT" - West Kingston, RI) and Express Pattern ("EP" -Buffalo Grove, IL), provides rapid prototyping services and proprietary mold building services.

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. During the first quarter of 2001, the Company formed Infinite Photonics, Inc. (IP - Orlando, FL) to begin manufacturing,

marketing and commercialization of the technology for telecommunications, materials processing, medical and other applications. Facilities are being developed in Orlando, FL. Infinite Photonics and MetaTek, Inc. ("MT"-Albuquerque, NM) are included in the Photonics Group.

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, Florida and Illinois. We maintain sites on the World Wide Web at www.infinite-group.com, www.laserfare.com, www.infinitephotonics.com, www.mlpc.com and www.expresspattern.com. Information contained on our websites does not constitute a part of this Report.

Effects of Recent Events

The terrorist attacks in New York and Washington, D.C. on September 11, 2001, additional threatened terrorist acts, and the ongoing military action have created uncertainties in our industry, as well as domestic and international economies, and the financial markets in general. These events, and potential future terrorist acts, may result in reduced demand from our clients for our services and products and may potentially have a material adverse effect on our business, financial condition and operating results. It is too soon, however, for us to reasonably estimate the impact of these tragic events on our industry and our future financial performance.

We continue to experience operating losses in 2001, with our third quarter negatively impacted by the tragedy of September 11. That tragedy resulted in delays at LF in the receipt of materials for aerospace and jet engine parts, a slowdown in prototype part orders at EP, and slowed demand for new injection molds at OW. This tragedy coupled with generally falling demand for plastic products due to the rapid increase in petroleum prices in 2000 and early 2001, resulted in reduced O&W/EP profitability. Although the bankruptcy of our significant long-term OW customer, Polaroid, did not result in accounts receivable losses, it did result in reduced year over year revenues for OW. Finally, the events of September 11 have negatively impacted the Nasdaq market in general and our stock trading price and volume, in particular, and have reduced our ability to complete private placement transactions to improve our capital position. This has resulted in reductions in cash flow, increased borrowings from banks and an increased negative working capital position.

Despite these negative events, we improved net year over year revenues, and comparable quarter over quarter net revenues, primarily due to increased revenues at LF from laser materials processing of power generation gas turbine parts, and increased contract research and development at ATG and MLPC from DARPA and AFRL, respectively.

The Laser Group

Our Laser Fare (LF) subsidiary is primarily engaged in contract laser material processing; and develops new applications for industrial lasers. Laser Fare has 25 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, 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. Specialized services include: High Temperature Superconductor (HTS) applications; growth of thin films by pulsed laser deposition (patent pending); and application of lasers to chemistry, photochemistry, spectroscopy, and applied optics.

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 (DoD). It manages and directs selected basic and applied research and development projects for DoD, 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. Laser direct write technologies enable cost-effective manufacturing of engineered components without the use of expensive tooling by directly depositing materials on substrates with laser energy. These laser technologies have applications across a broad range of industries, including telecommunications, materials processing, and automotive and consumer electronics.

The Photonics Group

Our GCSEL products can be fabricated for use as either a source laser (such as1550nM) or pump lasers (such as 980nM) for telecommunications, materials processing, medical and other applications. We have obtained one patent; have nine patents pending and an additional 10 patents under development for GCSEL and related technologies. In addition to our research physicists and engineers, we have also engaged researchers at the Photonics Research Center at the University of Connecticut, the Ioffe Institute, and the School of Optics / Center for Research and Education in Optics and Lasers ("CREOL") at the University of Central Florida in Orlando on applications of our grating coupled surface emitting lasers. Semiconductor diode wafers used in the manufacture of our GCSEL's are processed through our strategic alliance partner, Cutting Edge Optronics, (a TRW subsidiary) and we are qualifying a second source, as required by most major telecommunications equipment manufacturers.

To date we have prototyped 980nM and 1550nM GCSEL diodes for use in telecommunications and other commercial pump and source laser applications, and tested them for continuous wave (CW) power, linewidth, divergence angle, tunability and other characteristics necessary for commercial use. We compete with companies producing traditional edge emitting laser diodes used in telecommunications, such as Fabry-Perot (FP) and Distributed Feedback (DFB) diode lasers, as well as Vertically Coupled Surface Emitting Lasers (VCSEL). We believe our GCSEL's produce the best overall combination of: power and divergence angle of emitted light; require lower cost or no cost collimating optics; provide lower test, burn-in and packaging cost; and provide tunable range over a greater number of available channels than current competitive FP, DFB and VCSEL technology. Our GCSEL's have:

- Higher CW power than currently commercially available FP, DFB and VCSEL;
- Lower Divergence Angle than FP, DFB or VCSEL for the emitted light (which reduces the cost and complexity, or eliminates, collimating optics needed to focus into the fiber);
- Narrower Emission Linewidth allowing for more channels with greater tunable range; and
- Surface Emitting qualities similar to VCSEL's (which allow for lower cost testing on wafer, and simpler and less costly coupling to fiber optics) over competitive edge emitting FP and DFB.

Our management continues to investigate and implement strategies aimed at developing the applied photonics segment of our business. These included acquisition of intellectual property rights, filing of patents, and additional funds for research and development of GCSEL technology and products. We are currently involved in discussions with Fortune 500 companies and others, which would provide funding and additional revenue sources from 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 (subsequently increased to $1.3) million contract in support of our proprietary GCSEL development. In June 2001, the Air Force Research Laboratory (AFRL) at Kirtland AFB, NM signed a cooperative research and development agreement (CRADA) for development of scalable GCSEL.

In July 2001, we were certified by the Florida Governor's Office as a Semiconductor Diode Facility and exempted from sales and use taxes under Florida's Semiconductor, Defense and Space Technology Facility program. We are in the process of establishing diode development facilities near UCF-CREOL in Orlando. We are exploring numerous funding sources to ramp-up product development, the second site manufacturing capability in Orlando, and develop additional sales, marketing and administrative infrastructure. On November 13, 2001, we received notice of a pre-award of a contract (subject to final contract negotiations) for further GCSEL development.

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. O&W is a fifty-one-year-old plastic injection moldbuilding company located in Westfield, MA with approximately 42 employees. It serves a blue-ribbon clientele of automotive, automotive aftermarket, consumer sporting goods, and office machine equipment from its 21,500-sq. ft. manufacturing facility. Our proprietary ExpressTool (ET) mold fabrication and conformal cooling technologies lower the cost of molded parts, increase molding capacity and provide shorter delivery times over conventional constructed molds and has been integrated into our Westfield facility.

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 laser-driven stereolithography systems and equipment. Express Pattern also provides similar services to our other subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its product development activities through a series of private placements of debt and equity securities. At September 30, 2001, we had cash and cash equivalents of approximately $100,000 available for our working capital needs and planned capital asset expenditures.

While the majority of the revenues realized during the nine months ended September 30, 2001 were attributed to our LF and O&W operations, we anticipate improved revenue from our other divisions and positive results from 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 of credit of $62,500, and (c) a private placement of $50,000. Additional private placements of approximately $200,000, conversions of debt to equity of approximately $120,000 and conversion of a capital lease obligation to our principal shareholder of $448,830 to stockholders' equity were completed in April 2001. In June 2001 an additional private placement of $400,000 was completed and the final installment payment under a subscription agreement of $62,500, plus accrued interest was received. In July 2001 an additional private placement of $270,000, net of expenses of $30,000, was completed.

At September 30, 2001, we had a working capital deficit of $2,699,608. 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 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 net tangible assets of $2.0 million (stockholders' equity, less unamortized goodwill). If we fail to meet these requirements, our stock could be delisted. Last year we received a series of letters from Nasdaq addressing our failure to satisfy the minimum net tangible asset continued listing requirements for the SmallCap Market. As a result of private placement transactions consummated after December 31, 2000, and during the quarter ended June 30, 2001, we received a letter from Nasdaq that we were in compliance with the net tangible asset requirement at that date.

Because of the tragedy of September 11, 2001, and the resultant market disruptions, our capital raising efforts were substantially impaired. As a result, at September 30, 2001 we were below the minimum net tangible assets listing maintenance requirements. With the recovery of the markets we are actively pursuing private placement transactions that will remedy this deficiency.

Results of Operations

Laser group

Revenues from our laser material processing, value added services, advanced technology consulting and laser services for the quarter ended September 30, 2001 were $1,923,920, ($1,407,810 at September 30, 2000) with a gross profit for the period of $671,831 ($660,051 at September 30, 2000).

Photonics Group

Revenues related to the Photonics Group in the quarter ending September 30, 2001 amounted to $394,584 with a gross profit of $93,096. There were no revenues in this group for the quarter ended September 30, 2000.

Plastics group

Revenues from our plastic mold building, conformal cooling and proprietary thermal management of high production injection mold tooling, and plastic rapid prototyping services for quarter ended September 30, 2001 were $1,019,879 ($1,594,663 at September 30, 2000) with a gross profit for the period of $107,533 ($379,675 at September 30, 2000).

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Consolidated revenues for the three months ended September 30, 2001 were $3,338,383 on cost of sales of $2,465,923, resulting in a gross profit of $872,460 for the quarter. Consolidated revenues for the three months ended September 30, 2000 were $3,002,473 on cost of sales of $1,962,747, resulting in a gross profit of $1,039,726. The increase of $335,910 or 11.2% in consolidated revenues for the quarter ended September 30, 2001, compared to the quarter ended September 30, 2000, was due to a general increase in revenues associated

with gas turbine power generation parts at the Laser Group, and from contract research and development revenues from DARPA and AFRL.

Research and development expenses were $236,470 for the three months ended September 30, 2001 as compared to $265,027 for the three months ended September 30, 2000. The decrease of $28,557 or 10.8 % was primarily attributable to a different mix of development efforts.

General and administrative expenses were $772,708 for the three months ended September 30, 2001 as compared to $652,800 for the three months ended September 30, 2000. The increase of $119,908, or 18.4 %, was primarily attributed to executive and administrative salary increases related to the addition of the position of chief operating officer, as well as other costs related to the formation of the Infinite Photonics subsidiary.

Selling expenses were $156,539 for the three months ended September 30, 2001 as compared to $172,235 for the three months ended September 30, 2000, reflecting lower commissions on lower part revenues.

Depreciation and amortization expense totaled $352,219 for the three months ended September 30, 2001 as compared to $296,260 for the three months ended September 30, 2000. The increase reflects increased capital equipment at our EP subsidiary. Interest expense was $85,712 for the three months ended September 30, 2001 as compared to $201,813 for the three months ended September 30, 2000. The decrease of $116,101 was due primarily to lower rates from the decreases in the prime interest rate, the satisfaction of certain obligations during 2001 and a reduction of interest paid under a capital lease converted to equity by our president. .

The loss from operations was $645,476 for the three months ended September 30, 2001 as compared to a loss of $346,596 for the three months ended September 30, 2000. The increase of $298,880, or 86.2%, was primarily attributed to start-up costs at Infinite Photonics and reduced profitability in the Plastics Group.

Nine Months Ended September 30, 2001 Compared to the Nine Months Ended September 30, 2000

Consolidated revenue for the nine months ended September 30, 2001 were $10,606,359 with $5,870,843 of sales coming from the Laser Group, $535,794 coming from the Photonics Group, and $4,199,722 of sales coming from the Plastics Group. Cost of sales totaled $7,824,147 and a gross profit of $2,782,212 was realized for the period. For the nine months ended September 30, 2000 sales were $9,487,138, with $4,732,199 of sales coming from the Laser Group and $4,754,939 of sales coming from the Plastics Group. Consolidated cost of sales was $6,276,672 for the first nine months of 2000 and the Company realized a gross profit of $3,210,466 for the period. The increase in consolidated revenues of $1,119,221 or 11.8% compared to the nine months ended September 30, 2000 was due to increased revenues within the Laser segment, principally in gas turbine parts for the power generation industry and contract R&D in the Photonics Group.

Research and development expenses were $404,722 during the nine months ended September 30, 2001 as compared to $790,403 during the nine months ended September 30, 2000. The decrease of $385,681 or 48.8 % was primarily attributed to a different mix of development efforts for the Infinite Photonics' GCSEL technology, as previous research and development is moved into commercialization.

General and administration expenses for the nine months ended September 30, 2001 were $2,290,513 as compared to $1,989,325 for the nine months ended September 30, 2000. Cost containment savings in the first quarter were partially offset by the increase due to executive and administrative salary increases related to the addition of the position of Chief Operating Officer, as well as other costs related to the formation of the Infinite Photonics subsidiary.

Selling expenses were $503,256 for the nine months ended September 30, 2001 as compared to $488,667 for the first nine months of 2000. The increase reflected commissions paid on higher year over year sales volumes.

Depreciation and amortization expenses totaled $884,849 for the nine months ended September 30, 2001 as compared to $851,264 for the nine months ended September 30, 2000. The increase was primarily due to a capital lease at our EP subsidiary.

Interest expense was $458,593 and $562,864 during the nine-month periods ended September 30, 2001 and 2000 respectively. The decrease in interest expense was due primarily to lower rates from the decreases in the prime interest rate, the satisfaction of certain obligations during 2001 and a reduction of interest paid under a capital lease converted to equity by our president.

We had a consolidated net loss of $1,763,360 for the nine months ended September 30, 2001 as compared to consolidated net loss of $1,487,934 during the nine months ended September 30, 2000.

Part II - Other information

Items 1-5- None

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

On August 6, 2001, Infinite Group, Inc. filed a Report on Form 8-K regarding a change in Infinite Group, Inc.'s auditors.

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.

November 14, 2001

INFINITE GROUP, INC.

By: ss/ Clifford G. Brockmyre

Clifford G. Brockmyre, President
And Chief Executive Officer

By: ss/ Bruce J. Garreau

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