INFINITE GROUP INC
Form 10-K
March 06, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

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.)

60 Office Park Way

Pittsford, NY 14534
(Address of principal executive offices)

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

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

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

Common Stock

Par value $.001

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

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

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes **x**No ¨

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

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company **x**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No **x**

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant (based upon the closing price on the NASDAQ "Over the Counter Bulletin Board" of $.095 on June 30, 2011) was approximately $2,255,000.

As of February 29, 2012, 25,961,883 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

INFINITE GROUP, INC.

Form 10-K

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FORWARD LOOKING STATEMENT INFORMATION

Certain statements made in this Annual Report on Form 10-K are “forward-looking statements” regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and

other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein particularly in view of the current state of our operations, the inclusion of such information should not be regarded as a statement by us or any other person that our objectives and plans will be achieved. Factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, the factors set forth herein under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

Item 1. Business

Business Overview

We provide reliable IT solutions that are intended to deliver measurable results to small and medium sized businesses (SMBs), government agencies, and large commercial enterprises. We provide managed services that include managing leading edge operations and implementing complex programs in advanced server management, desktop and server monitoring and remediation, help desk and call center, data storage, backup and disaster recovery, and project management. We also provide cloud computing solutions that include public and private cloud architectures along with hybrid scalable cloud hosting, server virtualization and desktop virtualization solutions. In addition, we provide IT solutions that address mobility, information security and unified communications. We focus on aligning business processes with technology for delivery of solutions meeting our clients' needs and providing expert management services to the lifecycle of technology-based projects.

We also provide support to professional services organizations of software companies that need additional skilled resources when implementing solutions. Our technical support personnel maintain leading edge certifications and qualifications in the respective software applications.

We provide on and off-site client support to best meet our clients' needs. Our professionals are located at headquarters in Rochester, N.Y., Vienna, Virginia, Washington, D.C., Springfield, Virginia, Greenbelt, Maryland, Bowie, Maryland, Colorado Springs, Colorado and Jackson, Mississippi. We are able to provide onsite service to most locations around the world including military bases. In 2011, we had consultants in Afghanistan, Kuwait, Bahrain, Honduras and many military bases in the U.S.

As of December 31, 2011, we had 77 full-time employees and information technology independent contractors. Approximately 36% of our employees hold U.S. Government security clearances.

In 2011, we had sales of approximately $9.2 million as compared to sales of approximately $9.4 million in 2010. We generated operating income of approximately $313,000 in 2011 as compared to an operating loss of approximately $846,000 in 2010.

During 2011, we derived approximately 91% of our sales from U.S. Government clients including sales under subcontracts.

During 2011, we derived approximately 66% of our sales from one client, including sales under subcontracts for services to several different end clients. A portion of the revenue was derived from managing one of the nation's largest Microsoft Windows environments for a major establishment of the U.S. Government. We provided this support under a subcontract we entered into in 2004 with this large systems integrator, which has been renewed annually. Our team of server experts supports approximately 3,000 servers and 250,000 client stations from facilities in Maryland and Colorado. Operating 24 hours per day and seven days per week we consistently meet or exceed the requirements of our service level agreements. We refer to this as our Advanced Server Management (ASM) team. We also provide services to a large enterprise Fortune 100 company under this contract.

We provide professional services to another one of our partners under subcontracts to their end clients, of which, over 90% are to U.S. Government agencies and less than 10% to commercial entities. We have provided services at more than 100 U.S. Government locations.

We maintain an ISO 9001 certification which was renewed during 2011. ISO, or the International Organization for Standardization, is an international-standard-setting body composed of representatives from various national standards organizations which promulgates worldwide proprietary industrial and commercial standards. We also possess certifications with our business and technology partners and our personnel maintain numerous certifications and qualifications.

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

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

We strategically built our business to deliver IT solutions and services that are intended to address challenges common to many U.S. Government agencies, state and local governments and commercial companies including SMBs. Our key focus areas are as follows:

- Managed services including:
  - Desktop and server monitoring and remediation;
  - Help desk;
  - Data storage, back-up, and disaster recovery;
  - Asset management; and
  - Data center management.
- Cloud computing including:
  - Cloud hosting services;
  - Server consolidation; and
  - Desktop and server virtualization.
- Mobility.
- Unified communications including:
  - Messaging; and
  - Collaboration.
- Information security.
- Program and project management.
- Systems engineering.
- Consulting including:
  - Business continuity planning; and
  - Business process optimization and management.

Government Contract Vehicles

Our strategy has been to bid for contract vehicles that facilitate Federal and State governments procurement requirements which allow us to compete further on task orders issued under the Contract vehicles. We believe that possessing contract vehicles will facilitate sales growth if we are successful at bidding and winning business within task orders generated under these vehicles.

Federal Supply Schedule Contract. In 2003, we were awarded a Federal Supply Schedule Contract by the U.S. General Services Administration (GSA) for IT consulting services (Schedule 70). In 2008, our Schedule 70 Contract was extended for an additional five years through December 27, 2013. Having a Schedule 70 allows us to compete for and secure prime contracts with all executive agencies of the U.S. Government, as well as other national and international organizations. Our Schedule 70 contract encompasses 95 different labor categories for a three year term. We have used the Schedule 70 as a basis for pricing our current and proposed work. We intend to continue using our Schedule 70 to facilitate the sale of IT consulting services to the U.S. Government.

Navy's SeaPort-Enhanced (SeaPort-e) Program. In 2006, we were awarded a prime contract under the SeaPort-e program. This contract allows us to compete for and perform service requirements solicited by various Navy commands, the Marine Corps, other organizations within the Department of Defense (DoD), non-DoD agencies, and certain joint agency organizations for work that is integrally related to the scope and mission of the contract. This work involves professional services in all phases of naval ship and weapon systems acquisition and life-cycle support, including research and development support, prototyping, technology analysis, acquisition logistics, project management support, modeling, test and evaluation trials, crisis and consequence management, and engineering support. We continue to monitor task orders issued under this vehicle and we believe that task orders issued in our area of expertise will increase. If this does occur we believe we can increase sales to the Navy.

Mississippi Server Virtualization Contract. In 2009, the State of Mississippi awarded us a three-year contract to provide server virtualization consulting services to all state agencies. Under the agreement, we support the virtualization projects of each agency to move their servers to a virtualized environment at the State's new data center located in Jackson, Mississippi or virtualize in place as directed. The program started with the Department of Human Services. We prepared a "total cost of ownership" analysis which estimated that virtualizing the department's 112 servers and migration to the central data center will save an estimated $4 million over five years. During 2010, we completed a virtualization assessment project that studied, architected, and designed a program to consolidate and virtualize executive agency servers for the state's datacenter. The total cost of ownership analysis showed approximately $9 million of savings over five years. During 2011, we began implementing the second phase by virtualizing servers at four executive agencies. The success of these agencies led the way for more agencies to adopt the modernization concept and all agencies are now fully designed. The implementation phase will extend well into 2012. The adoption and success of our implementation of VMware led to the selection of VMware Site Recovery Manager for better backup and recovery at two agencies. Additionally the Mississippi Department of Information Technology engaged us to leverage the Virtual Machine environment at a chosen agency to design and implement an Application Backup and Replication system. The success of this endeavor led to its selection at another agency. We believe our track record of successful engagements in Mississippi will lead to increased business in the state and that our state experience and track record in Mississippi will support our effort to increase business in other states.

Mississippi Security Consulting Services EPL. In October 2011, we were extended for an additional year by the Mississippi Department of Information Technology Services (ITS) as a Security Consulting Services vendor on an Express Products List (EPL) for Security Consulting Services. Vendors on the EPL provide support to state agencies, institutions of higher learning, local governments, and school districts. The purpose of the EPL is to provide ITS clients and staff with an economic, flexible mechanism to acquire security consulting services in full compliance with all purchasing requirements from pre-approved vendors.

Mississippi Information Systems Consulting Services. The State of Mississippi issued us an Information Consulting Services Agreement in January 2011. The agreement is used to procure professional services on a limited competition basis from pre-qualified vendors. The State has a wide variety of telecommunications and computer system platforms and used the agreement to acquire consulting and technical support services in information technology. Additionally the state selected companies with experience and expertise in the management, integration, deployment, design, implementation, and support of large-scale wireless communication solutions for governmental entities as well as turnkey applications and consulting projects.

Navy Enterprise Maintenance Automated Information System (NEMAIS). We are a member of a team led by CACI International Inc. that was awarded a task order by the U.S. Navy in 2007 to support its NEMAIS data center operations. The task order, awarded under the Seaport II Enhanced contract vehicle (Seaport-e) has been extended into 2012. The CACI team performs the work at the Naval Sea Systems Command (NAVSEA) site in Norfolk, Virginia and the Puget Sound Naval Shipyard in Washington State. As a result of the award, CACI was able to maintain the same level of support it has been providing to the Navy for the NEMAIS data center which in turn enhances CACI's and our core lines of business in engineering services, network services and business systems integration. Since 2008, we have worked with CACI on a portion of this project under the terms of our subcontract. We believe addition task orders issued, bid on and won by us under this vehicle could lead us to increased sales.

Certifications and Partner Agreements

VMware Authorized Consultant (VAC). Since 2007, we have been approved as a VMware Authorized Consultant (VAC) by VMware, Inc. a subsidiary of EMC Corporation. VMware is recognized as the industry leader in virtualization technology. As a VAC, we are trained and certified to deliver consulting services and solutions leveraging VMware technology. We are also certified as a VMware Enterprise VIP Reseller authorized to resell VMware's full product line. We are an Enterprise Partner with VMware with the Infrastructure Virtualization Competency. We are also a Virtualization Management Lighthouse Partner which is a distinction earned by invitation only and requires passing select training courses specific to VMware Management solutions. We are also registered with the U.S. Federal Specialization within VMware. These certifications are examples of our concerted effort to grow and expand our virtualization practice. We are actively working with a number of current and potential clients that utilize this expertise. We believe our virtualization experience and expertise with VMware will continue to facilitate increases in sales, particularly in the Cloud computing market.

Microsoft Silver Certified Partner. In 2011, we expanded our relationship with Microsoft by becoming part of their Accredited Online Cloud Services program. We have successfully been certified in sales, pricing and technical delivery of Office 365 which combines the familiar Office desktop suite with cloud-based versions of the next-generation communications and collaboration services: Exchange Online, SharePoint Online and Lync Online. These services are already providing real world benefits to our existing clients while allowing us to offer clear guidelines for transitioning new users to hybrid-cloud-based solutions. We have also received certification for Windows Intune which provides complete remote desktop support capabilities enhancing our overall goal of providing complete solutions for virtualization and cloud based Software as a Service (SaaS). What once required expensive hardware and time consuming deployments can now be delivered seamlessly, including web conferencing, collaboration, document management, messaging, customer relationship management and productive office web applications all with lower total cost of ownership and quicker return on investment. We believe our Microsoft competencies assist our business development personnel when presenting solutions that, if accepted, will increase our revenue.

Dell Master Services and Authorized Reseller Agreements. In 2009, we entered into master services relationship and authorized reseller agreements with Dell, Inc. Under the master services agreement with Dell's professional services organization, we can rapidly engage on consulting projects and deliver service in a streamlined and efficient manner. Our key areas of focus for our Dell partnership include virtualization services, as well as operational support for major Dell contracts in the federal and defense markets. In addition, our authorized reseller status enables us to deliver Dell's world-class range of hardware and software solutions to our own end-user clients and those clients engaged under the Dell master services agreement and we believe this will increase our ability to generate sales.

Hewlett Packard Supplier Based Consolidation Program (SBCP). In 2009, we were accepted into the Hewlett Packard (HP) Supplier Based Consolidation Program (SBCP). Under SBCP, we are a member of a select group of suppliers that are eligible to be awarded tasks by HP nationwide. HP has many tools and resources to help us generate new sales streams, and improve our mutual profitability, while at the same time adding unique value for our joint

clients. The program comprises practical tools and services that we hope will help us in the key areas of marketing and selling our solutions, optimizing the technology, and collaborating with other organizations within our industry in order to generate more revenue. The Master Services Agreement covering the SCBP runs for five years.

Competition

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

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

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

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

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

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

Company Information Available on the Internet

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

Employees

At December 31, 2011, we have 77 full-time employees and independent contractors, including 65 in information technology services, one in executive management, three in finance and administration, one in employee recruiting, and seven in marketing and sales. We are not subject to any collective bargaining agreements and we believe that our relations with our employees are good. We believe that we are currently staffed at an appropriate level to administratively implement and carry out our business plan for the next 12 months. However, we expect to add positions in information technology services as we expand our sales.

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

General Information

We were incorporated under the laws of the state of Delaware on October 14, 1986. On January 7, 1998, we changed our name from Infinite Machines Corp. to Infinite Group, Inc. Our principal corporate headquarters are located at 60 Office Park Way, Pittsford, NY 14534. Our business is exclusively in the field of IT services.

Item 1A. Risk Factors

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

Risks Related to our Industry

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

We derived approximately 91% and 83% of our sales in 2011 and 2010, respectively, from U.S. Government contracts as either a prime contractor or a subcontractor. We expect that we will continue to derive a substantial portion of our sales for the foreseeable future from work performed under U.S. Government contracts, as we have in the past, and from new marketing efforts focused on state and local governments and commercial enterprises. If we or our prime contractors were suspended or prohibited from contracting with federal, state or local governments, or if our reputation or relationship with the federal, state or local governments and commercial enterprises were impaired, or if any of the foregoing otherwise ceased doing business with us or our prime contractors or significantly decreased the amount of business it does with us or our prime contractors, our business, prospects, financial condition and operating results would be materially adversely affected.

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

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

- changes in U.S. Government programs or requirements;
- budgetary priorities limiting or delaying U.S. Government spending generally, or by specific departments or agencies in particular, and changes in fiscal policies or available funding, including potential governmental shutdowns;
- reductions in the U.S. Government's use of technology solutions firms;
- a decrease in the number of contracts reserved for small businesses, or small business set asides, which could result in our inability to compete directly for these prime contracts; and

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

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

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

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

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

- terminate our existing contracts;
- reduce potential future revenues from our existing contracts;
- modify some of the terms and conditions in our existing contracts;
- suspend or permanently prohibit us from doing business with the U.S. Government or with any specific government agency;
- impose fines and penalties;
- subject us to criminal prosecution;
- subject the award of some contracts to protest or challenge by competitors, which may require the contracting U.S. agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new bids for the contract or result in the termination, reduction or modification of the awarded contract;
- suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;
- decline to exercise an option to extend an existing multiple year contract; and
- claim rights in technologies and systems invented, developed or produced by us.

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

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

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

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

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

- we expend substantial funds, managerial time and effort to prepare bids and proposals for contracts that we may not win;
- we may be unable to estimate accurately the resources and cost that will be required to service any contract we win, which could result in substantial cost overruns; and
- we may encounter expense and delay if our competitors protest or challenge awards of contracts to us in competitive bidding, and any such protest or challenge could result in a requirement to resubmit bids on modified specifications or in the termination, reduction or modification of the awarded contract.

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

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

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

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

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

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

- our clients' perception of our ability to add value through our services;
- competition;
- introduction of new services or products by us or our competitors;
- pricing policies of our competitors; and
- general economic conditions.

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

- seasonal trends, primarily as a result of holidays, vacations, and slowdowns by our clients, which may have a more significant effect in the fourth quarter;
- our ability to transition employees from completed engagements to new engagements;
- our ability to forecast demand for our services and thereby maintain an appropriately balanced and sized workforce; and
- our ability to manage employee turnover.

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

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

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

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

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

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

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

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

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

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

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

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

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

Many of our U.S. Government contracts require employees and facilities used in specific engagements to hold security clearances and to clear National Agency Checks and Defense Security Service checks. Some of our contracts

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

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

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

- allow our U.S. Government clients to terminate or not renew our contracts if we come under foreign ownership, control or influence;
- require us to disclose and certify cost and pricing data in connection with contract negotiations;
- require us to prevent unauthorized access to classified information; and
- require us to comply with laws and regulations intended to promote various social or economic goals.

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

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

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

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

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

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

We derived over 95% of our sales in 2011 from contracts under which we acted as a subcontractor. Our subcontracts with prime contractors contain many of the same provisions as the prime contracts and therefore carry many of the same risks previously identified in these Risk Factors. As a subcontractor, we often lack control over fulfillment of a contract, and poor performance on the contract by others could tarnish our reputation, even when we perform as required. We expect to continue to depend on relationships with other contractors for a significant portion of our sales

in the foreseeable future. Moreover, our sales and operating results could be materially adversely affected if any prime contractor chooses to offer services of the type that we provide or if any prime contractor teams with other companies to independently provide those services.

Risks Related to our Business and Financial Condition

We have experienced operating losses for many quarters until our fourth quarter of 2011.

We experienced operating losses of approximately $846,000 in 2010 and $673,000 in 2009, and net losses of approximately $1.1 million in 2010 and $966,000 in 2009. During 2011, we had quarterly operating losses until the fourth quarter when we had an operating profit of approximately $683,000. We had net income of $19,579 for 2011, which includes a $294,438 gain in connection with the O&W Plan termination. At December 31, 2011, we had an accumulated deficit of approximately $33.3 million and a stockholders' deficit of $3.2 million. We have maintained our selling expenses for marketing and selling efforts at approximately $1.2 million and $1.6 million for 2011 and 2010, respectively, which have impacted our operating results.

Although we had an operating profit in our most recent quarter, we need to continue to close new contracts and earn additional sales or curtail our marketing and selling efforts in order to operate profitably.

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

At December 31, 2011, we had current liabilities, including trade payables, of approximately $2.3 million and long-term liabilities of $2.1 million. We had a working capital deficit of approximately $1.2 million and a current ratio of .47. If we experience working capital shortages that impair our business operations and growth strategy, our business, operations and financial condition will be materially adversely affected.

We have significant liabilities related to the O&W pension plan.

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 O&W common stock to a third party, but continued to act as the sponsor of the O&W defined benefit pension plan (O&W Plan). Although we continued to act as the sponsor of the O&W Plan after the sale, during 2007 management determined that it had no legal obligation to do so.

In 2009, the Department of the Treasury (Treasury) issued a report disagreeing with management’s position and concluding that we were the O&W Plan sponsor. As a result of this Treasury position, if upheld, we are responsible for excise taxes attributed to the funding deficiency of $1,836,359 for the years 2003 through 2007. The report also states that proposed 10% excise taxes of $348,500, penalties for late payment of excise taxes of approximately $1.2 million, and 100% excise taxes of approximately $3.5 million related to the years ended December 31, 2006 and 2007 may be imposed. Penalties for late payment may be removed if we provide reasonable cause for not paying the excise taxes and the Treasury concurs with our position. We and our legal counsel in connection with this matter disagree with significant aspects of both the factual findings and legal conclusions set forth in the Treasury’s report and, in accordance with Treasury procedures, have responded with a detailed analysis of our opposition to their findings. We are pursuing all appropriate steps to perfect our appeal rights and attempt to prevail on the merits of our position, which includes filing a protest, requesting an appeals conference, and, if needed, petitioning the tax court and advocating our position in that forum.

At December 31, 2011, we have accrued amounts related to excise taxes due to the Treasury on unfunded contributions for 2003, 2004 and 2005 of $480,000 and potentially could incur additional excise taxes of 10% and additional excise taxes of 100% of required plan contributions for each year that contributions were not made.

During 2011, we completed discussions of settlement terms with the Pension Benefit Guaranty Corporation (the "PBGC"), with the objective of terminating the O&W Plan. On September 6, 2011, we received notification from the PBGC that it had executed a Settlement Agreement with us, effective September 1, 2011 and issued a Notice of Determination (the "PBGC Determination") that the O&W Plan had not met the minimum funding standard required under section 412 of the Internal Revenue Code and would be unable to pay benefits when due, which PBGC Determination was a condition precedent to our obligations under the Settlement Agreement.

On October 17, 2011, in accordance with the Settlement Agreement, we: (i) purchased 500,000 shares of our common stock from the O&W Plan for $130,000; (ii) issued a secured promissory note in favor of the PBGC for $300,000 bearing interest at 6% per annum amortizing in quarterly payments over a seven year period and (iii) agreed to make future payments through December 31, 2017 out of our "Free Cash Flow", as defined in the Settlement Agreement, not to exceed $569,999. The Settlement Agreement contains specific events of default and provisions for remedies upon default. On November 1, 2011, the PBGC terminated the O&W Plan, appointed the PBGC as the statutory trustee of the O&W Plan, and established November 30, 2001 as the termination date for the O&W Plan.

As a result of the PBGC's termination of the O&W Plan as of November 30, 2001, we have no further obligations to the O&W Plan or the PBGC other than those stated in the Settlement Agreement. Further, we believe that the outcome with the PBGC and specifically the O&W Plan's termination date of November 30, 2001, increases the likelihood of our prevailing with the Treasury in our position that we have no legal obligation to act as the sponsor of the O&W Plan. However, there is no assurance that we will prevail in our position with Treasury.

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

From 2003 through 2011, we received approximately $3.1 million in a combination of equity, debt conversion and debt transactions from a limited number of high net worth investors. We cannot provide assurance that we will be able to continue to raise additional capital from this group of investors, or that we will be able to secure funding from additional sources.

We have current notes payable to related parties of $197,000, $30,000 to a third party, and current maturities of long-term obligations of $32,360. Certain of our long-term notes to third parties totaling $440,000 mature on January 1, 2013. We cannot provide assurance that we will be able to obtain extensions of maturity dates for long-term notes payable when they mature or that we will be able to repay or otherwise refinance the notes at their scheduled maturities.

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

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

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

We have secured an accounts receivable financing line of credit from an independent finance organization institution that allows us to sell selected accounts receivable invoices to the financial institution with full recourse against us in the amount of $2 million, including a sublimit for one major client of $1.5 million. This provides us with the cash needed to finance certain costs and expenses. At December 31, 2011, we had financing availability, based on eligible accounts receivable, of approximately $315,000 under this line. We pay fees based on the length of time that the invoice remains unpaid. As we grow, additional working capital may be required to support this difference in the timing of cash receipts versus payroll disbursements. Moreover, our accounts receivable financing lender may decide to cease subsequent advances at any time in its discretion, upon our failure to meet certain contractual requirements or upon the occurrence of certain events or contingencies that are out of our control. In such event, our short-term cash requirements would exceed available cash on hand resulting in material adverse consequences to our business.

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

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

Over the last several years, the U.S. and worldwide capital and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the capital and credit markets may negatively impact our business, including our ability to access additional financing at reasonable terms, which may negatively affect our ability to fund current operations or expand our business. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of our equity securities. Disruptions in the financial markets may have a material adverse effect on the market value of our common stock and other adverse effects on our business.

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

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

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

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

We may have difficulties in managing our growth.

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

We depend on the continued services of our key personnel.

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

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

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

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

We provide professional services and sometimes procure materials on behalf of our government clients under various contract arrangements. From time to time, in order to ensure that we satisfy our clients' delivery requirements and schedules, we may elect, based on verbal authorization, to initiate procurements or provide services in advance of receiving formal written contractual authorization from the government client or a prime contractor. If our government or prime contractor requirements should change or the government directs the anticipated procurement to a contractor other than us, or if the materials become obsolete or require modification before we are under contract for the procurement, our investment might be at risk. If we do not receive the required funding, our cost of services incurred in excess of contractual funding may not be recoverable. This could reduce anticipated revenue or result in a loss, negatively affecting our cash flow and profitability.

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

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

Risks Related to our Common Stock

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

As of February 29, 2012, one individual and three related parties or their affiliates owned approximately 9.1%, 3.9%, 2.4%, and 1.9%, respectively, (17.3% in the aggregate) of our outstanding common stock (excluding stock options,

warrants and convertible notes).

Two related parties that hold convertible notes payable have the right to convert notes payable and accrued interest into shares of common stock at $.05 per share. Another related party has the right to convert a note payable at $.16 per share. If these parties converted all of the principal and accrued interest into common stock, these three individuals would own approximately 24.4%, 13.1% and 2.4%, respectively, of our then outstanding common stock. However, such notes may not be converted if such conversion would result in a change in control which would limit the use of our net operating loss carryforwards.

We estimate at February 29, 2012 that substantially all convertible notes payable and accrued interest due to all related parties could be converted to shares of common stock, without affecting a change of control that would limit the use of our net operating loss carryforwards. If these related party holders converted all of their notes payable and accrued interest into shares of common stock, then three related party individuals or their affiliates would own approximately 39.9% in the aggregate of our then outstanding common stock (excluding stock options and warrants).

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

The price of our common stock may be adversely affected by the possible issuance of shares as a result of the conversion of outstanding notes and exercise of outstanding options and warrants.

We have an aggregate of $175,000 and $150,000, respectively, of convertible notes outstanding convertible into shares of common stock at $.25 and $.05 per share, respectively. If all of these notes were converted into common stock, the holders would receive 3,700,000 shares of our common stock or approximately 12.5 % of our then outstanding common stock.

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

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

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

During 2011, the market price for our common stock varied between a low of $.03 in January, 2011 and a high of $.20 in September, 2011. This volatility may affect the price at which a stockholder could sell its shares of common stock, and the sale of substantial amounts of our common stock could adversely affect the price of our common stock. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors, including variations in our quarterly operating results and announcement by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, or capital commitments.

Our common stock is currently traded on the OTC Bulletin Board. Because there is a limited public market for our common stock, a stockholder may not be able to sell shares when it wants. We cannot assure you that an active trading market for our common stock will ever develop.

There is limited trading in our common stock and we cannot assure you that an active public market for our common stock will ever develop. The lack of an active public trading market means that a stockholder may not be able to sell their shares of common stock when it wants, thereby increasing its market risk. Until our common stock is listed on an exchange, we expect that the shares will continue to be listed on the OTC Bulletin Board. However, an investor may find it difficult to obtain accurate quotations regarding the common stock’s market value. In addition, if we failed to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers

who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect the shares liquidity. Moreover our ability to obtain future financing may be adversely affected by the consequences of our common stock trading on the Over the Counter Bulletin Board.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The table below lists our facility locations and square feet owned or leased. The lease for our Pittsford, New York headquarters includes an escalation provision for property taxes and two three-year renewal options with annual rent escalating at 3.5%. Our business development office in the Washington D.C. metropolitan area is located in Vienna, Virginia. On August 31, 2011, we reduced our office space in Vienna, Virginia when our lease on a portion of our office space became subject to renewal. Under the lease for this office, utilities are included in the rent and we are responsible for any increases in operating expenses and property taxes. Our lease for office space in Colorado Springs, Colorado expired at September 30, 2011 and we decided not to renew it or lease other office space.

At December 31, 2011	Owned	Square Feet Leased	Annual Rent	Termination Date
Pittsford, New York	-	2,942	$ 28,794	April 30, 2012
Vienna, Virginia	-	262	$ 8,339	May 31, 2012

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

Item 3. Legal Proceedings

We are not presently involved in any material legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

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

Year Ended December 31, 2011	Bid Prices High	Low
First Quarter	$.12	$.03
Second Quarter	$.12	$.05
Third Quarter	$.20	$.05
Fourth Quarter	$.19	$.04

Year Ended December 31, 2010	High	Low
First Quarter	$.25	$.13
Second Quarter	$.16	$.08
Third Quarter	$.14	$.07
Fourth Quarter	$.08	$.02

At February 29, 2012 we had 242 record stockholders and approximately 1,500 beneficial stockholders.

Share Repurchases

In accordance with the Settlement Agreement that we executed with the PBGC and in connection with the termination of the O&W Plan, on October 17, 2011, we repurchased and retired 500,000 shares of our common stock from the O&W Plan for $130,000. The purchase price was financed with the proceeds from: (i) the sale of a 7% convertible note in the principal amount of $100,000 which is convertible at the option of the holder into shares of our common stock at $.10 per share and matures on October 3, 2016 (the “Convertible Note”) to a non-affiliated accredited investor; and (ii) $30,000 of our working capital.

Dividend Policy

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

Item 6. Selected Financial Data

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

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

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

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

This report also identifies important factors, which could cause actual results to differ materially from those indicated by the forward looking statements. These risks and uncertainties include the factors discussed under the heading "Risk Factors" beginning at page 12 of this report.

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

Business Overview

We provide reliable IT solutions that are intended to deliver measurable results to small and medium sized businesses (SMBs), government agencies, and large commercial enterprises. We provide managed services that include managing leading edge operations and implementing complex programs in advanced server management, desktop and server monitoring and remediation, help desk and call center, data storage, backup and disaster recovery, and project management. We also provide cloud computing solutions that include public and private cloud architectures along with hybrid scalable cloud hosting, server virtualization and desktop virtualization solutions. In addition, we provide IT solutions that address mobility, information security and unified communications. We focus on aligning business processes with technology for delivery of solutions meeting our clients' needs and providing expert management services to the lifecycle of technology-based projects.

We believe we are positioned to take advantage of the growing marketplace for cloud related IT managed services and solutions. Our goal is to remain focused on growing our business internally through increased marketing efforts, by expanding into new market areas and by beginning to review potential acquisitions. In addition, we remain committed to remaining on the leading edge of technologies and trends in the IT service sector. Our ability to succeed depends on how successful we are at differentiating ourselves from our competition particularly at a time when competition is on the increase.

We also provide support to professional services organizations of software companies that need additional skilled resources when implementing solutions. Our technical support personnel maintain leading edge certifications and qualifications in their respective software applications. We intend to use our service track record and experience to our advantage and market our excellent record to other software companies who need our services. We plan to expand our sales with our existing clients by expanding within those organizations.

We provide on and off-site client support to best meet our clients' needs. We are able to provide onsite service to most locations around the world including military bases. In 2011, we had consultants in Afghanistan, Kuwait, Bahrain, Honduras and many military bases in the U.S. Our ability to provide quality resources in a timely cost effective manner is a key factor that differentiates us from the competition. We have a mechanism to monitor one of our most important metrics which is client satisfaction in every segment of our business.

As of December 31, 2011, we had 77 full-time employees and information technology independent contractors. Approximately 36% of our employees hold U.S. Government security clearances. Our hiring practices include the use of independent contractors. We maintain an in house recruiting department and we monitor key metrics to maintain our quality objectives. Our business objectives include the use of qualified independent contractors when certain specialty skill sets are required and generally when assignments are of shorter term duration. We consistently monitor utilization rates as a key metric to our business decisions when hiring and/or contracting.

During 2011, we derived approximately 91% of our sales from U.S. Government clients including sales under subcontracts and we derived approximately 66% of our sales from one client, including sales under subcontracts for services to several different end clients. A portion of the revenue was derived from managing one of the nation’s largest Microsoft Windows environments for a major establishment of the U.S. Government. We provided this support under a subcontract we entered into in 2004 with this large systems integrator, which has been renewed annually. Our team of server experts supports approximately 3,000 servers and 250,000 client stations from facilities in Maryland and Colorado. Operating 24 hours per day and seven days per week we consistently meet or exceed the requirements of our service level agreements. We refer to this as our Advanced Server Management (ASM) team. We also provide services to a large enterprise Fortune 100 company under this contract. Our goal is to expand on our track record with our partner and the end clients to increase our business with this client.

We provide professional services to another one of our partners under subcontracts to their end clients, of which, over 90% are to U.S. Government agencies and less than 10% to commercial entities. We have provided services at more than 100 U.S. Government locations. We have provided these services to small and large commercial enterprises under this partnership subcontract. Our experience with this cloud computing related software has placed us in a position to take advantage of a growing trend towards Managed IT Services, particularly in the SMB space. We believe that the cloud virtualization experience that we gained from working with large institutions and government agencies differentiates us from competition, particularly within the SMB space. A goal to increase our revenue from direct sales to SMB’s is a priority. During 2012, we expect to increase our activity in this pursuit.

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

Although we believe we have opportunities for sales growth with government and commercial clients, the lengthy and uncertain procurement processes may result in operating losses or inconsistent operating income until sales increase to support our infrastructure. We understand that the U.S. Government has expressed its intention to reduce its budgets related to technical services contracts in the coming years, which may impact our ability to increase our sales to certain U.S. Government agencies. For example, in 2011 we entered into a mentor protégé agreement with a major IT hardware and services vendor. We jointly bid on a large government wide procurement vehicle which if an award is made and our team wins we expect to be allocated a portion of sales to a U.S. Government agency under the small business requirement as stated in the agreement. The long anticipated award continues to be postponed and we are uncertain as to the outcome.

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

Other Trends

The recessionary economy that we have continued to experience since 2009 has impacted certain portions of our business and our growth opportunities as certain projects are deferred pending funding or improved economic conditions. In addition, the U.S. Government trend toward in sourcing has impacted certain areas of our business. Since 2012 is an election year there continues to be uncertainty in the U.S. Government market. Any disruption may have an impact on our strategy.

Since 2009, the United States and worldwide capital and credit markets experienced significant price volatility and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the capital and credit markets may negatively impact our business, including our ability to access additional financing at reasonable terms or to refinance our credit at improved terms, which may negatively affect our ability to make future acquisitions or expansions of our business. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital. The disruptions in the financial markets may have a material adverse effect on the market value of our common stock and other adverse effects on our business.

Osley & Whitney, Inc. Retirement Plan

The following discussion of the Osley & Whitney, Inc. Retirement Plan (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 O&W common stock 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 management determined that it had no legal obligation to do so.

During 2007, we submitted information to the Department of the Treasury (Treasury) advocating that we had no legal obligation to act as the sponsor of the O&W Plan to ascertain whether the Treasury concurred or disagreed with this

position. We subsequently provided responses to Treasury inquiries related to this determination. In October 2009, we received a report from the Treasury that stated that the Treasury staff disagreed with our position and as a result, we are responsible for excise taxes attributed to the funding deficiency of $1,836,359 for the years 2003 through 2007. The report also stated that 10% excise taxes of $348,500, penalties for late payment of excise taxes of approximately $1.2 million, and 100% excise taxes of approximately $3.5 million related to the years ended December 31, 2006 and 2007 may be imposed. Penalties for late payment may be removed if we provide reasonable cause for not paying the excise taxes and the Treasury concurs with our position. We and our outside legal counsel disagree with significant aspects of both the factual findings and legal conclusions set forth in the report and, in accordance with Treasury procedures, we have responded with a detailed analysis of our opposition to their findings. We continue to diligently pursue all appropriate steps to perfect our appeal rights and attempt to prevail on the merits of our position, which includes filing a protest, requesting an appeals conference, and, if needed, petitioning the tax court and advocating our position in that forum.

If we do not ultimately prevail, we will become obligated to pay these excise taxes, penalties and potentially additional excise taxes of approximately $440,000 for the O&W Plan years ended December 31, 2008 and 2009, which have not been accrued. We believe that since the Pension Benefit Guarantee Corporation (the “PBGC”) established November 30, 2001 as the termination date of the O&W Plan, no subsequent contributions to the O&W Plan are required and accordingly there is no basis to assess excise taxes. No amounts have been accrued for 2006 and subsequent years based upon our determination that we have no legal obligation to act as the O&W Plan sponsor, and our belief that the likelihood is not probable that it will be required to pay these excise taxes. Further, if we do not ultimately prevail, we may be required to pay interest on these excise taxes and potentially incur penalties for late payment of excise taxes and additional excise taxes up to 100% of each year’s required funding deficiency. We have accrued amounts related to excise taxes, penalties and interest on unfunded contributions for 2003, 2004 and 2005 of approximately $480,000 as of December 31, 2011 ($470,000 at December 31, 2010). No excise taxes, penalties or interest for 2006, 2007, 2008, 2009, and 2010 have been accrued at December 31, 2011 and 2010.

O&W Plan Terminated in 2011

On November 1, 2011, in accordance with the terms of the Settlement Agreement with the PBGC (the “Settlement Agreement”): (i) the O &W Plan was terminated; (ii) the PBGC was appointed as the statutory trustee of the O&W Plan; and (iii) November 30, 2001 was established as the termination date for the O&W Plan.

As a result of the PBGC’s termination of the O&W Plan as of November 30, 2001, we have no further obligations to the O&W Plan or the PBGC other than those stated in the Settlement Agreement. Further, we believe that the outcome with the PBGC and specifically the O&W Plan's termination date of November 30, 2001, increases the likelihood of our prevailing with the Treasury in our position that we had no legal obligation to act as the sponsor of the O&W Plan. However, there is no assurance that we will prevail in our position with Treasury.

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

	Year ended December 31,	
	2011	2010
Interest cost	**$ 203,635**	$ 290,125
Expected return on plan assets	**(90,575**)	(156,590)
Expected expenses	**31,499**	50,000
Actuarial loss	**101,877**	127,526
Net periodic pension cost	**$ 246,436**	$ 311,061

The decrease in net periodic pension cost of approximately $65,000 was due to the termination of the O&W Plan in the fourth quarter of 2011.

At December 31, 2010, the O&W Plan had an accrued pension obligation liability of $4,314,883 which includes the underfunded amount plus interest on past due payments and excise taxes including penalties and interest of approximately $470,000 as discussed above. Accumulated other comprehensive loss of $2,961,147 at December 31, 2010 has been recorded as a reduction of stockholders’ equity.

The projected benefit obligation increased during 2010 by $64,327 to $5,160,059 at December 31, 2010 as a result interest cost of $290,125, changes in actuarial assumptions of $194,294 and an actuarial loss of $28,518, which were offset by benefits paid of $448,610. During 2011, the PBGC assumed the obligation to pay benefits in connection with the termination of the O&W Plan.

Liquidity and Capital Resources

At December 31, 2011, we had cash of $36,894 available for our primary liquidity needs for working capital needs and planned capital asset expenditures. Our primary source of liquidity is cash provided by collections of accounts receivable and our factoring line of credit. At December 31, 2011, we had approximately $315,000 of availability under this line.

At December 31, 2011, we had a working capital deficit of approximately $1.2 million and a current ratio of .47. Our objective is to improve our working capital position through profitable operations. We have accrued $500,000 for O&W Plan related current liabilities which have not been resolved. Without these current liabilities, our working capital deficit would have been approximately $727,000 at December 31, 2011.

During 2011, we financed our business activities principally through sales with recourse of our accounts receivable. In October 2011, in accordance with the Settlement Agreement, we: (i) raised gross proceeds of $100,000 from the sale of the Convertible Note to an accredited investor which, along with $30,000 of our working capital, were used to purchase 500,000 shares of our common stock from the O&W Plan for $130,000 and (ii) issued a $300,000 promissory note to the PBGC bearing interest at 6% per annum amortizing in quarterly payments over a seven year period. We also agreed to make future payments through December 31, 2017 out of our "Free Cash Flow," as defined in the Settlement Agreement, not to exceed $569,999. In addition, on October 28, 2011, we borrowed $23,000 from one of our officers and issued an 18% promissory note payable on demand.

During 2010, we financed our business activities through the issuance of notes payable to related parties, sales with recourse of our accounts receivable and capital leases. Also, during 2010, a related party note holder converted accrued interest payable into shares of our common stock. During May and August 2010, we received an aggregate of $90,000 through working capital loans from our president and from one of our directors of which $70,000 was repaid to our president during 2010.

We generated operating income of $312,948 and net income of $19,579 during the year ended December 31, 2011 as compared to an operating loss of $846,430 and a net loss of $1,119,070 during the year ended December 31, 2010. A portion of this improvement came in the fourth quarter of 2011 from recording a $294,438 gain as a result of the termination of the O&W Plan.

Our goal is to increase sales and generate cash flow from operations. We implemented certain ISO 9001-2008 processes used in the management of certain key metrics. These improvements have aided us in the management of our overall performance including the expense reductions and other key internal performance metrics.

Our leases for certain office space in Vienna, Virginia and Colorado Springs, Colorado, expired in 2011 and were not renewed whereby we realized expense reductions. In addition, a reduction in selling expenses was realized from reduced number of business development positions and the use of virtual meetings, webinars and conference calls.

As a result of the Settlement Agreement, in future periods we will no longer accrue O&W Plan pension expenses in our financial statements.

We believe the capital resources available under our factoring line of credit, cash from additional related party loans and cash generated by improving the results of our operations will be sufficient to fund our ongoing operations and to support the internal growth we expect to achieve for at least the next 12 months. However, if we do not continue to improve the results of our operations in future periods, we expect that additional working capital will be required to fund our business. There is no assurance that in the event we need additional funds that adequate additional working capital will be available or, if available, will be offered on acceptable terms.

We anticipate financing growth from acquisitions of other businesses, if any, and our longer-term internal growth through one or more of the following sources: cash from collections of accounts receivable; additional borrowing; issuance of equity; use of our existing accounts receivable credit facility; or a refinancing of our accounts receivable credit facility.

The following table sets forth our sources and uses of cash for the years presented.

	Years ended December 31,	
	2011	2010
Net cash used by operating activities	$ (5,289)	$ (158,954)
Net cash used by investing activities	(10,018)	(5,078)
Net cash provided by financing activities	19,046	476
Net (decrease) increase in cash	$ 3,739	$ (163,556)

Cash Flows Used by Operating Activities

Cash used by operations was reduced to $5,289 in 2011 compared with cash used by operations of $158,954 for 2010. The decrease in cash used by operations was primarily due to net income of $19,579 and a net increase of $157,030 in current liabilities related to operating activities. Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments by using cash generated by operations and financing our accounts receivable. We invoice our clients weekly or monthly after services are performed, depending on the contract terms.

During 2010, cash used by operations was $158,954. Our decrease in accounts receivable provided cash of $409,278 in 2010. Our increase in current liabilities related to operating activities consisted of an increase in accrued pension obligations of $451,223, offset by decreases in accounts payable of $34,481 and accrued expenses of $34,239. These items provided operating cash to offset our net loss of $1,119,070 in 2010.

Cash Flows Used by Investing Activities

Cash used by investing activities for 2011 was $10,018 compared with cash used by investing activities of $5,078 for 2010. Cash used by investing activities was for capital expenditures for computer hardware and software. We expect to continue to invest in computer hardware and software to update our technology to support the growth of our business. In early 2010, we acquired, under capital leases, technology equipment and software of approximately $39,000 to demonstrate virtualization solutions for potential clients with the objective of growing our sales. We do not have plans for other significant capital expenditures in the near future.

Cash Flows Provided by Financing Activities

Cash provided by financing activities was $19,046 for 2011 compared with cash used by financing activities of $476 for 2010. In 2011, we generated cash of $123,000 from the issuances of new notes payable. The proceeds from the note issuances were used to repurchase shares of our common stock in connection with the termination of the O&W Plan and to satisfy current maturities of long-term debt of $28,953. In comparison, for 2010, cash used by financing activities was $476 consisting of $90,000 of proceeds from related party borrowings offset by payments to related parties of $70,000 and $19,524 to satisfy current maturities of long-term debt. We anticipate that we will use approximately $32,400 through the next twelve months for funding contractual requirements of current maturities of long-term debt obligations.

Credit Agreement

We maintain an accounts receivable financing line of credit with an independent finance institution that allows us to sell selected accounts receivable invoices to the financial institution with full recourse against us in the amount of $2,000,000, including a sublimit for one major client of $1,500,000. This provides us with the cash needed to finance certain of our on-going costs and expenses. At December 31, 2011, we had financing availability, based on eligible accounts receivable, of approximately $315,000 under this line. We pay fees based on the length of time that the invoice remains unpaid.

Results of Operations

Comparison of the years ended December 31, 2011 and 2010

The following table compares our statements of operations data for the years ended December 31, 2011 and 2010. .

	Year Ended December 31,				2011 vs. 2010	
	2011	As a % of Sales	2010	As a % of Sales	Amount of Change	% Increase (Decrease)
Sales	$9,163,780	100.0%	$9,398,434	100.0%	$(234,654)	(2.5)%
Cost of services	6,602,364	72.0	6,918,717	73.6	(316,353)	(4.6)
Gross profit	2,561,416	28.0	2,479,717	26.4	81,699	3.3
General and administrative	895,495	9.8	1,203,486	12.8	(307,991)	(25.6)
Defined benefit pension plan	103,822	1.1	513,859	5.5	(410,037)	(79.8)
Selling	1,249,115	13.6	1,608,802	17.1	(359,687)	(22.4)
Total costs and expenses	2,248,432	24.5	3,326,147	35.4	(1,077,715)	(32.4)
Operating income (loss)	312,984	3.4	(846,430)	(9.0)	1,159,414	137.0
Interest expense	(291,611)	(3.2)	(271,410)	(2.9)	20,201	7.4
Income tax expense	(1,794)	(0.0)	(1,230)	(0.0)	564	45.9
Net income (loss)	$19,579	.2 %	$(1,119,070)	(11.9)%	$1,138,649	101.7 %
Net income (loss) per share - basic and diluted	$.00		$(.04)		$.04	

Sales

Sales for 2011 were $9,163,780, a decrease of $234,654 or 2.5% as compared to sales of $9,398,434 for 2010. The sales decreases that we experienced in 2010 continued into the first quarter of 2011, when sales were down by approximately $760,000 in the first quarter of 2011 as compared to the first quarter of 2010. Sales increased by approximately $94,000 during the second and third quarters of 2011 as compared to the corresponding period in 2010. Sales increased by approximately $430,000 during the fourth quarter of 2011 as compared to the fourth quarter of 2010.

This change in the trend line of sales was due to improvement in capturing new sales and an increase in the number of projects. In 2010, we expanded our role with VMware as a subcontractor by supporting multiple VMware projects. During 2011, we continued to focus on expanding this business and realized sales increases as the year progressed. We continue to pursue opportunities to develop additional sales from new and existing target markets, such as investing marketing resources in the SMB segment during 2011.

During 2010, we completed a virtualization assessment project that studied, architected, and designed a program to consolidate and virtualize executive agency servers for a state government datacenter. Our sales to state governments decreased by approximately $380,000 in 2011 as phase two of virtualization projects was deferred to the last two quarters of 2011with work extending into 2012.