

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

FORM 10-QSB

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

For the quarterly period ended September 30, 1999

Commission file number: 0-27862

REALITY INTERACTIVE, INC.
(Exact name of registrant as specified in its charter)

MINNESOTA	41-1781991
-----	-----
State or other jurisdiction of incorporation of organization	I.R.S. Employer Identification No.
SUITE 121	
7887 FULLER ROAD	
EDEN PRAIRIE, MINNESOTA 55344	(612) 253-4700
-----	-----
Address of principal executive offices	Registrant's telephone number

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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.
[X] Yes [] No

At October 31, 1999, 4,677,407 shares of registrant's \$.01 par value Common Stock were outstanding.

Transitional Small Business Issuer Format [] Yes [X] No

FORM 10-QSB INDEX

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SAFE HARBOR STATEMENT UNDER THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in the forward-looking statements.

On April 27, 1999, the Company announced that it would cease current business operations effective April 30, 1999. Management of the Company believes this action was necessary in light of the Company's current liquidity needs and lack of short-term revenue opportunities.

The Company is currently exploring potential uses of its public shell. While the Company seeks potential uses for the public shell, the primary factor that might cause such difference in results is the Company's inability to find a suitable acquisition or merger candidate or other use for its public shell in the near future.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REALITY INTERACTIVE, INC.
BALANCE SHEET

	September 30, 1999	December 31, 1998
	----- (Unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 109,856	\$ 291,697
Restricted cash.....	0	111,000
Accounts receivable.....	4,198	231,525
Prepaid expenses and other current assets.....	4,790	40,299
	-----	-----
Total current assets.....	118,844	674,521
	-----	-----
Fixed assets, net.....	5,019	63,833
Other assets.....	0	9,356
	-----	-----
Total assets.....	\$ 123,863	\$ 747,710
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 16,509	\$ 38,733
Accrued liabilities.....	7,953	31,938
Deferred revenue.....	0	49,495
Other current liabilities.....	0	1,572
	-----	-----
Total current liabilities.....	24,462	121,738
Long-term liabilities.....	0	0
	-----	-----
Total liabilities.....	24,462	121,738
	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value, 25,000,000 shares authorized; 4,677,407 shares outstanding.....	46,774	46,774
Additional paid-in capital.....	15,386,692	15,386,692
Accumulated deficit during the development stage.....	(15,334,065)	(14,807,494)
	-----	-----
Total stockholders' equity.....	99,401	625,972
	-----	-----
Total liabilities and stockholders' equity.....	\$ 123,863	\$ 747,710
	=====	=====

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
STATEMENT OF OPERATIONS
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Product revenues.....	\$ 21,914	\$ 106,900	\$ 112,033	\$ 325,810
Service revenues.....	6,121	69,700	142,166	297,040
Total revenues.....	28,035	176,600	254,199	622,850
Cost of product revenues.....	3,065	13,067	21,750	70,430
Cost of service revenues.....	0	55,752	108,024	239,895
Total cost of revenues.....	3,065	68,819	129,774	310,325
Gross profit.....	24,970	107,781	124,425	312,525
Operating expenses:				
Sales and marketing.....	0	94,352	99,284	417,664
Research and development.....	0	142,459	103,456	439,450
General and administrative.....	131,470	242,598	539,625	911,253
Total operating expenses.....	131,470	479,409	742,365	1,768,367
Operating loss.....	(106,500)	(371,628)	(617,940)	(1,455,842)
Interest income (expense), net.....	1,250	9,449	6,369	48,668
Loss before extraordinary gain.....	(105,250)	(362,179)	(611,571)	(1,407,174)
Extraordinary gain from sale of intellectual property..	85,000	0	85,000	0
Net loss	\$ (20,250)	\$ (362,179)	\$ (526,571)	\$(1,407,174)
Basic and diluted earnings (loss) per share.....	\$ (0.004)	\$ (0.08)	\$ (0.11)	\$ (0.30)
Weighted average common shares outstanding.....	4,677,407	4,677,407	4,677,407	4,677,407

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine months ended September 30,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$(526,571)	\$(1,407,174)
Reconciliation of net loss to net cash used by operating activities:		
Depreciation and amortization.....	30,000	48,115
Changes in assets and liabilities:		
Accounts receivable.....	227,327	238,757
Inventory.....	0	6,623
Prepaid expenses and other assets.....	44,865	17,290
Accounts payable.....	(22,224)	(20,627)
Accrued liabilities.....	(23,985)	(99,083)
Deferred revenue.....	(49,495)	(162,263)
Other current liabilities.....	(1,572)	(1,694)
Net cash provided (used) by operating activities.....	(321,655)	(1,380,056)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets, net of retirements.....	0	(4,978)
Proceeds from sale of fixed assets.....	28,814	0
Purchases of short-term investments.....	0	(32,977)
Sale of short-term investments.....	0	1,563,522
Cash restricted for operating leases.....	111,000	(111,000)
Net cash provided (used) by investing activities.....	139,814	1,414,567
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bridge notes payable.....	86,335	0
Forgiveness of bridge notes payable.....	(86,335)	0
Net cash provided (used) by financing activities.....	0	0
Net cash provided (used) during period.....	(181,841)	34,511
CASH AND CASH EQUIVALENTS:		
Beginning of period.....	291,697	487,994
End of period.....	\$ 109,856	\$ 522,505

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999
(UNAUDITED)

NOTE 1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Reality Interactive, Inc. (the "Company") was incorporated on May 24, 1994 for the purpose of developing technology-based knowledge solutions for the industrial marketplace.

On April 30, 1999, the Company ceased business operations and all employees were terminated. Management of the Company believes this action was necessary in light of the Company's liquidity needs and lack of short-term revenue opportunities.

Since April 30, 1999, the Company has been selling the intellectual property embodied in its CD-ROM and Internet products, as well as its fixed assets, including computers and office furniture. The Company is also exploring potential uses of its public shell. In the meantime, the Company intends to comply with all SEC reporting requirements in order to maintain its status as a public company.

Basis of Presentation

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information. The preparation of financial statements in accordance with generally accepted accounting principles require management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, including the disclosure of contingent assets and liabilities at the date of the accompanying interim financial statements, and the reported amounts of revenue and expenses during the reporting period. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the results of operations for the interim periods presented.

Because the Company has ceased business operations, operating results for the three and nine months ended September 30, 1999 will not be indicative of the operating results for the year ending December 31, 1999. See Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments.

Certain information and footnote disclosures normally included in financial statements in accordance with generally accepted accounting principles have been omitted. The statements should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended December 31, 1998.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following presentation of management's discussion and analysis of the Company's financial condition and results of operation should be read in conjunction with the Company's financial statements and notes contained herein for the three and nine months ended September 30, 1999 and 1998.

RESULTS OF OPERATIONS

REVENUES. Revenues were \$28,035 for the third quarter of 1999 compared to revenues of \$176,600 for the third quarter of 1998. For the nine-month period ended September 30, 1999, revenues were \$254,199, compared to revenues of \$622,850 for the same period of 1998. Revenue for the third quarter of 1999 was primarily derived from sales of the Company's CD-ROM products before the Company sold the underlying intellectual property rights of its CD-ROM products in August 1999. See Item 2. "Liquidity and Capital Resources," and Item 4. "Submission of Matters to a Vote of Security Holders" for further information on the Company's sale of its intellectual property and other assets.

The Company has ceased taking additional orders for its products and thus will not realize revenues in future periods.

COST OF REVENUES. Cost of revenues for the third quarter of 1999 were \$3,065, compared to \$68,819 for the third quarter of 1998. For the nine-month period ended September 30, 1999, cost of revenues were \$129,774, compared to cost of revenues of \$310,325 for the same period of 1998. The decrease in cost of revenues was due to the decrease in revenues.

OPERATING EXPENSES. The Company's operating expenses for the third quarter of 1999 were \$131,470, compared to operating expenses of \$479,409 in the third quarter of 1998. For the nine-month period ended September 30, 1999, operating expenses were \$742,365, compared to operating expenses of \$1,768,367 for the same period of 1998. This decrease in operating expenses between 1999 and 1998 was due primarily to expense reductions and ceasing business operations on April 30, 1999.

- (a) **SALES AND MARKETING.** Sales and marketing expenses for the third quarter of 1999 were \$0, compared to \$94,352 for the third quarter of 1998. For the nine-month period ended September 30, 1999, sales and marketing expenses were \$99,284, compared to sales and marketing expenses of \$417,664 for the same period of 1998. This decrease was due primarily to expense reductions and cessation of business operations on April 30, 1999.
- (b) **RESEARCH AND DEVELOPMENT.** Research and development expenses for the third quarter of 1999 were \$0, compared to \$142,459 for the third quarter of 1998. For the nine-month period ended September 30, 1999, research and development expenses were \$103,456, compared to research and development expenses of \$439,450 for the same period of 1998. This decrease was due primarily to expense reductions and cessation of business operations on April 30, 1999.
- (c) **GENERAL AND ADMINISTRATIVE.** General and administrative expenses for the third quarter of 1999 were \$131,470, compared to \$242,598 for the third quarter of 1998. For the nine-month period ended September 30, 1999, general and administrative expenses were \$539,625, compared to general and administrative expenses of \$911,253 for the same period of 1998. This decrease was due primarily to expense reductions and cessation of business operations on April

30, 1999. Expenses incurred during the third quarter of 1999 relate entirely to the wind-down of business operations, shareholder proxy preparation and SEC reporting costs.

OTHER INCOME (EXPENSE). The Company's net other income for the third quarter of 1999 was \$1,250, compared to net other income of \$9,449 for the third quarter of 1998. For the nine-month period ended September 30, 1999, net other income was \$6,369, compared to net other income of \$48,668 for the same period of 1998. Net other income consists entirely of interest earned on cash and cash equivalents. The decrease between periods is attributed to a decrease in cash reserves.

NET LOSS. Net loss for the third quarter of 1999 was \$20,250, compared to a net loss of \$362,179 for the third quarter of 1998. For the nine-month period ended September 30, 1999, net loss was \$526,571, compared to a net loss of \$1,407,174 for the same period of 1998. Since the Company has ceased business operations, it does not expect to incur additional substantial losses in 1999, except for expenses relating to the operation of a small office and SEC public filing requirements. See "---Recent Developments."

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were \$109,856 as of September 30, 1999, compared to \$291,697 as of December 31, 1998. This decrease in cash and cash equivalents was due primarily to the net loss from operations.

In connection with the sale of business assets, the Company entered into an Asset Purchase Agreement dated June 18, 1999 with VirtualFund.com, Inc. (the "Buyer"), whereby the Buyer agreed to purchase certain intellectual property assets owned by the Company for a price of \$85,000. The Buyer agreed to provide loans to the Company up to the amount of the purchase price until the asset sale is approved by the Company's shareholders. Upon approval by the Company's shareholders, the loans advanced would be considered payment for the assets and all loans would be discharged and canceled. During the second and third quarters of 1999, the Buyer made loans to the Company of \$70,000 and \$15,000, respectively. In connection with a Special Meeting of Shareholders on August 17, 1999, the sale of assets to the Buyer was approved by shareholders, and the proceeds realized were treated as an extraordinary gain. See Item 4. "Submission of Matters to a Vote of Security Holders."

During the third quarter of 1999, the Company obtained access to cash totaling \$111,000, which previously was restricted by a letter of credit that secured a lease for the Company's business premises. In addition, the Company also realized cash totaling \$28,814 during the quarter from sales of its computers and office furniture.

RECENT DEVELOPMENTS

On April 27, 1999, the Company announced that it would cease current business operations effective April 30, 1999. Management of the Company believes this action was necessary in light of the Company's current liquidity needs and lack of short-term revenue opportunities.

The Company is currently exploring potential uses of its public shell. In the meantime, however, the Company is executing a plan to sell its assets. See "Item 4. Submission of Matters to a Vote of Security Holders." With respect to maintaining its status as a public company, the Company intends to comply with all future SEC and other filing requirements associated with being a public company.

IMPACT OF THE YEAR 2000 ISSUE

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Some computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. All of the software produced by the Company has been analyzed and the Company is not aware of any potential for date recognition problems in its products. The Company also uses off-the-shelf software ("Administrative Software") produced by third parties for use in administrative functions such as word processing, billing and record keeping. The vendors of the Company's Administrative Software products have indicated that such products are Year 2000 compliant. In the event that any of these programs are susceptible to date recognition problems, this could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process critical business transactions. In the event that the Company experiences Year 2000 problems, the Company believes the cost to remedy such problems will be immaterial.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On July 8, 1999, the Company mailed a Proxy Statement to its shareholders that gave notice of a Special Meeting of Shareholders to be held at the Company's corporate offices on July 29, 1999. The purpose of the Special Meeting was to consider the sale, lease, transfer or other disposition of all or substantially all of the property and assets of the Company and, in particular, to vote on the following proposals:

1. To approve the sale of certain intellectual property assets of the Company, pursuant to an Asset Purchase Agreement dated June 18, 1999 (the "IP Asset Sale"), to VirtualFund.com, Inc. (the "Buyer"), in connection with the process of winding-down the Company's business affairs.
2. To approve the sale of the remaining intellectual property and all furniture, fixtures and equipment owned by the Company.

As of July 29, 1999, only 1,554,521 shares, or 33% of total shares outstanding of 4,677,407, were voted and present at the Special Meeting. Although less than a quorum, the shares were voted in the following manner:

	FOR -----	AGAINST -----	ABSTAIN -----
PROPOSAL 1	1,423,821	106,200	24,500
PROPOSAL 2	1,423,821	106,200	24,500

Because a quorum was not achieved, the Company rescheduled the Special Meeting of Shareholders in order to accumulate additional votes. The new meeting will be held at 9:00 a.m. on Tuesday, August 17, 1999, at the corporate offices of the Company, Baker Technology Plaza, 6121 Baker Road, Suite 115, Minnetonka, Minnesota.

At the reconvened Special Meeting of Shareholders on August 17, 1999, 2,513,914 shares were voted and present, representing 53.75% of total shares outstanding. The shares voted were tabulated in the following manner:

	FOR -----	AGAINST -----	ABSTAIN -----
PROPOSAL 1	2,347,714	115,000	34,200
PROPOSAL 2	2,364,714	115,000	34,200

Since a quorum was achieved, the proposals were passed.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO. DESCRIPTION

27.1 Financial Data Schedules

99.1 Cautionary Statement

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended
September 30, 1999

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REALITY INTERACTIVE, INC.

Dated: November 5, 1999

By /s/ Paul J. Wendorff

Paul J. Wendorff
Its Chief Executive Officer

Dated: November 5, 1999

By /s/ Wesley W. Winnekins

Wesley W. Winnekins
Its Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
27.1	Financial Data Schedules
99.1	Cautionary Statement

CAUTIONARY STATEMENT

Reality Interactive, Inc. (the "Company"), or persons acting on behalf of the Company, or outside reviewers retained by the Company making statements on behalf of the Company, or underwriters, from time to time make, in writing or orally, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in conjunction with an identified forward-looking statement, this Cautionary Statement is for the purpose of qualifying for the "safe harbor" provisions of such sections and is intended to be a readily available written document that contains factors which could cause results to differ materially from such forward-looking statements. These factors are in addition to any other cautionary statements, written or oral, which may be made or referred to in connection with any such forward-looking statement.

The following matter, among others, may have a material adverse effect on the business, financial condition, liquidity, results of operations or prospects, financial or otherwise, of the Company. Reference to this Cautionary Statement in the context of a forward-looking statement or statements shall be deemed to be a statement that may cause actual results to differ materially from those in such forward-looking statement or statements:

DISCONTINUATION OF CURRENT OPERATIONS. The Company ceased its business operations effective as of April 30, 1999. Management of the Company believes this action was necessary in light of the Company's current liquidity needs and lack of short-term revenue opportunities. The Company is currently exploring potential uses for the Company in its current form as an inoperative public company. In the meantime, the Company intends to comply with all SEC filing requirements in order to maintain the Company's good standing under the Securities Exchange Act of 1934, as amended. In the event the Company is unable to find a suitable acquisition or merger candidate or other suitable use for the Company in the near future, the Company will be liquidated and its remaining assets will be distributed to its creditors in satisfaction of its then-current obligations and, if any assets remain thereafter, to its shareholders. There can be no assurance that any such candidate or other suitable use for the Company or its assets will be found.

9-MOS		
	DEC-31-1999	
	SEP-30-1999	
		109,856
		0
		4,198
		0
		0
	118,844	424,190
	419,171	
	123,863	
	24,462	
		0
	0	
		0
		46,774
		52,627
123,863		
		254,199
	260,568	
		129,774
		129,774
		129,774
		742,365
		0
		0
	(611,571)	
		0
(611,571)		
		0
	85,000	
		0
	(526,571)	
	(.11)	
	(.11)	