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, 1997

Commission file number: 0-27862

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

MINNESOTA	41-1781991
State or other jurisdiction of incorporation of organization	I.R.S. Employer Identification No.

SUITE 400 7500 FLYING CLOUD DRIVE EDEN PRAIRIE, MINNESOTA 55344	(612) 996-6777
Address of principal executive offices	Issuer's telephone number

Check whether the issuer (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 issuer 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, 1997, 4,677,407 shares of issuer's $.01 par value Common Stock were outstanding.

Transitional Small Business Issuer Format / / Yes /X/ No

FORM 10-QSB INDEX

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. Factors that might cause such differences include, but are not limited to, the uncertainty in growth of a development stage company; limited growth of the market for multimedia education and training products; lack of market acceptance of the Company's products; inability of the Company to expand its marketing capability; inability of the Company to diversify its product offerings; failure of the Company to respond to evolving industry standards and technological changes; inability of the Company to meet its future additional capital requirements; inability of the Company to compete in the business education and training industry; loss of key management personnel; inability to retain subject matter experts; failure of the Company to secure adequate protection for the Company's intellectual property rights; and the Company's exposure to product liability claims. The forward-looking statements are qualified in their entirety by the cautions and risk factors set forth in Exhibit 99.1, under the caption "Cautionary Statement," to this Quarterly Report on Form 10-QSB for the quarter ended September 30, 1997.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REALITY INTERACTIVE, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEET

	September 30, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 348,927	$ 508,728
Short-term investments	2,006,979	4,744,712
Accounts receivable	614,307	97,396
Inventory	162,727	134,853
Prepaid expenses and other current assets	56,224	62,835
Total current assets	3,189,164	5,548,524
Fixed assets, net	151,514	191,936
Restricted cash	116,800	116,800
Other assets	20,250	28,481
Total assets	$ 3,477,728	$5,885,741
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 48,150	$ 116,388
Accrued liabilities	275,194	118,686
Other current liabilities	168,120	12,345
Total current liabilities	491,464	247,419
Long-term liabilities	0	0
Total liabilities	491,464	247,419
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.	(12,447,202)	(9,795,144)
Total stockholders' equity	2,986,264	5,638,322
Total liabilities and stockholders' equity	$ 3,477,728	$5,885,741

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF OPERATIONS
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Revenues	$530,468	$ 93,677	$ 816,309	$ 341,784
Cost of revenues	95,022	18,768	172,918	65,238
Gross profit	435,446	74,909	643,391	276,546
Operating expenses:				
Sales and marketing	216,129	712,912	921,367	1,859,101
Research and development	225,988	678,085	1,251,518	1,598,251
General and administrative	434,630	428,357	1,269,409	1,087,109
Total operating expenses	876,747	1,819,354	3,442,294	4,544,461
Operating loss	(441,301)	(1,744,445)	(2,798,903)	(4,267,915)
Other income (expense):				
Interest income (expense), net	39,369	104,551	146,845	(61,035)
Debt offering costs	0	0	0	(113,486)
Total other income (expense)	39,369	104,551	146,845	(174,521)
Income before extraordinary loss	$(401,932)	$(1,639,894)	$(2,652,058)	$(4,442,436)
Extraordinary loss from early retirement of debt	0	0	0	(219,470)
Net loss	$(401,932)	$(1,639,894)	$(2,652,058)	$(4,661,906)
Net loss per common and common equivalent share	$ (0.09)	$ (0.35)	$ (0.57)	$ (1.34)
Weighted average common and common equivalent shares	4,677,407	4,677,407	4,677,407	3,488,130

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine months ended September 30, 1997	Nine months ended September 30, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss..	$ (2,652,058)	$(4,661,906)
Reconciliation of net loss to net cash used by operating activities:		
Depreciation and amortization...........	65,791	90,000
Noncash interest expense related to warrants....	0	193,979
Extraordinary loss related to early retirement of debt (interest expense related to warrants)	0	142,021
Changes in assets and liabilities:		
Accounts receivable............................	(516,911)	(89,880)
Inventory......................................	(27,873)	(60,871)
Prepaid expenses and other assets...............	14,842	(82,389)
Accounts payable................................	(68,239)	(52,577)
Accrued liabilities.............................	156,508	(18,697)
Other current liabilities.......................	155,775	11,059
Net cash used by operating activities.......	(2,872,165)	(4,529,261)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets..........................	(25,369)	(279,266)
Purchases of short-term investments................	(157,267)	(10,164,404)
Sales of short-term investments....................	2,895,000	3,500,000
Net cash used by investing activities.......	2,712,364	(6,943,670)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of capital lease obligation.............	0	(15,471)
Repayment of notes payable.........................	0	(201,002)
Proceeds from convertible notes payable............	0	2,800,000
Repayment of convertible notes payable.............	0	(2,774,997)
Proceeds from sale leaseback of fixed assets........	0	266,157
Net proceeds from initial public offering...........	0	11,549,607
Proceeds from exercise of stock options............	0	990
Net cash provided by financing activities...	0	11,625,284
Net cash provided (used) during period.................	(159,801)	152,353
CASH AND CASH EQUIVALENTS:		
Beginning of period................................	508,728	118,916
End of period......................................	$ 348,927	$ 271,269
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest............................	$ 0	$ 88,867
Warrants issued in connection with notes payable....	$ 0	$ 336,000
Conversion of mandatorily redeemable convertible preferred stock to common stock..................	$ 0	$2,125,962
Conversion of bridge notes payable to common stock..	$ 0	$ 25,003

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1997
(UNAUDITED)

NOTE 1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

The Company was formed in May 1994 to design, develop and market interactive multimedia knowledge solutions to the industrial marketplace. The Company's business strategy is to identify industry standards and practices that affect business productivity and profitability, where the adoption of such standards and practices require enterprise-wide education and training. To address this education and training need, the Company creates products that incorporate digital multimedia elements, such as animation, video, graphics, audio and text, into a rich, interactive learning environment. Each of the Company's products contain productivity tools, such as word processors, budget forms and custom tailored project plans, to allow the user to organize, analyze and produce documents using company-specific information. The Company believes the interactivity of its products allows the user to control the learning environment, including the pace, sequence and level of instruction, as well as improve memory retention, compress learning time and reduce costs compared to traditional learning methods.

The Company considers itself to be a development stage company as its sales and marketing efforts have not yet generated predictable or significant revenues. The Company has a deficit accumulated during the development stage of $12,447,202. To become profitable and to conserve capital, the Company must significantly increase revenues and manage expenses. Future operating results will depend upon many factors, including the rate at which industry adopts interactive multimedia technology for education and training, the level of product and price competition, the Company's success in maturing its direct and indirect sales channels and the ability of the company to manage its expenses in relation to sales.

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 as well as 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 adjustments necessary for a fair presentation of the results of operations for the interim periods presented. Operating results for the three and nine months ended September 30, 1997 are not necessarily indicative of the operating results to be expected for the year ending December 31, 1997.

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, 1996.

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 quarters ended September 30, 1997 and 1996.

RESULTS OF OPERATIONS

REVENUES. Revenues were $530,468 for the third quarter of 1997, an increase of 466% from revenues of $93,677 for the third quarter of 1996. For the nine month period ended September 30, 1997, revenues were $816,309, an increase of 139% from revenues of $341,784 for the comparable period of 1996.

The revenue increase during the third quarter of 1997 is primarily attributable to a sale of the Company's QS-9000 COMPLIANCE SERIES and ISO 9000 REGISTRATION SERIES to General Motors Corporation and the UAW-GM Center for Human Resources. This sale resulted in revenue of $387,618, or approximately 73% of total revenue for the quarter. The Company anticipates that sales to these parties will continue to be a material source of its revenue for at least the next quarter, but is uncertain if future revenues from these parties will be comparable to those realized in the third quarter.

COST OF REVENUES. Cost of revenues were $95,022 for the third quarter of 1997, compared to $18,768 for the third quarter of 1996. For the nine month period ended September 30, 1997, cost of revenues were $172,918, compared to cost of revenues of $65,238 for the same period of 1996. The increase in cost of revenues is primarily attributable to royalties paid on an increasing level of sales. These royalties represent a contractual obligation for the Company to its marketing partners and subject matter experts. Cost of revenues also includes the cost of media duplication and packaging materials.

OPERATING EXPENSES. The Company's operating expenses for the third quarter of 1997 were $876,747, a 51.8% decrease from operating expenses of $1,819,354 for the third quarter of 1996. For the nine month period ended September 30, 1997, operating expenses were $3,442,294, a 24.3% decrease over operating expenses of $4,544,461 for the same period of 1996. This change in operating expenses between 1997 and 1996 was due primarily to a cash conservation program the Company initiated during the early part of 1997 and is specifically explained by the following changes:

(a) SALES AND MARKETING. Sales and marketing expenses were $216,129 for the third quarter of 1997, a 69.7% decrease from sales and marketing expenses of $712,912 for the third quarter of 1996. For the nine month period ended September 30, 1997, sales and marketing expenses were $921,367, a 50.4% decrease from sales and marketing expenses of $1,859,101 for the same period of 1996. This decrease between periods was due primarily to substantially fewer direct sales people, lower sales travel expenses and a decrease in the number of product marketing initiatives. The Company expects that sales and marketing expenses for the remainder of 1997 will remain consistent with third quarter 1997 levels.

(b) RESEARCH AND DEVELOPMENT. Research and development expenses were $225,988 for the third quarter of 1997, a 66.7% decrease from research and development expenses of $678,085 for the third quarter of 1996. For the nine month period ended September 30, 1997, research and development expenses were $1,251,518, a 21.7% decrease from research and development expenses of $1,598,251 for the same period of 1996. This decrease is primarily attributable to a shift in the Company's strategy of developing off-the-shelf CD-ROM multimedia products, which require significant upfront expenditures to develop, to the development of customer-specific products. Development costs associated with customer-specific products require significantly less upfront expenditures by the Company, and are generally reimbursed by the customer on a percentage of completion basis.

For the remainder of 1997, the Company expects that research and development expenses may experience an increase over current levels as a result of customer-specific projects the Company began early in the fourth quarter of 1997. The Company expects that development expenses to be incurred on these projects during the fourth quarter of 1997 will be offset against earned revenue. These customer-specific projects are consistent with the Company's previously stated strategy of developing customer relationships that result in the delivery of custom multimedia development services. The Company expects that such development services will enable the Company to generate a new revenue source while the market for off-the-shelf, multimedia training products matures. The Company believes this strategy will conserve capital, and at the same time, better position the Company to become a more complete source for multimedia content development. Although this business model has proven itself in a number of multimedia development companies, there can be no assurance that the Company will be successful in developing this multimedia services model.

(c) GENERAL AND ADMINISTRATIVE. General and administrative expenses were $434,630 for the third quarter of 1997, a 1.5% increase over general and administrative expenses of $428,357 for the third quarter of 1996. For the nine month period ended September 30, 1997, general and administrative expenses were $1,269,409, a 16.8% increase from general and administrative expenses of $1,087,109 for the same period of 1996. This increase was due primarily to increased travel, office rent, operating leases and professional fees attributed to being a public company. The Company does not anticipate any significant changes in general and administrative expenditure levels for the remainder of 1997.

OTHER INCOME (EXPENSE). The Company's net other income was $39,369 for the third quarter of 1997, compared to net other income of $104,551 for the third quarter of 1996. For the nine month period ended September 30, 1997, net other income was $146,845, compared to net other expense of $174,521 for the same period of 1996. For the nine month period ended September 30, 1997, net other income consisted entirely of interest earned on short-term investments. For the nine month period ended September 30, 1996, net other expense primarily consisted of expenses associated with the Company's January 1996 bridge note financing, including interest expense and amortization of offering costs, as well as interest earned from the investment of proceeds from its bridge note financing and initial public offering.

NET LOSS. Net loss was $401,932 for the third quarter of 1997, compared to a net loss of $1,639,894 for the third quarter of 1996. For the nine month period ended September 30, 1997, net loss was $2,652,058, compared to a net loss of $4,661,906 for the same period of 1996 after deducting $219,470 in extraordinary losses from an early retirement of debt. The Company expects to continue to incur losses for the foreseeable future as it develops the market for its off-the-shelf products and custom multimedia development services.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash, cash equivalents and short-term investments were $2,355,906 as of September 30, 1997, compared to $5,253,440 as of December 31, 1996. This decrease in cash, cash equivalents and short-term investments was due primarily to the net loss from operations for the nine months ended September 30, 1997.

The Company anticipates that it will continue to experience operating losses and negative cash flow from operations at least through 1997. The Company believes that its current cash balance, along with expected revenues over the foreseeable future, will be sufficient to meet its working capital and capital expenditure requirements at least through June of 1998. Thereafter, the Company may need to raise additional funds to finance its operations. In addition, to the extent the Company's revenues do not meet management's expectations, or the Company's growth exceeds management's expectations, the Company may require additional financing prior to June of 1998. In such event, there can be no assurance that debt or equity financing would be available to the Company on favorable terms or at all.

PART II - OTHER INFORMATION

ITEM 2: CHANGES IN SECURITIES (USE OF PROCEEDS FROM PUBLIC OFFERING)

The Company's initial Registration Statement on Form SB-2, file no. 333-01508C, was declared effective by the Securities and Exchange Commission on April 10, 1996. The offering of the Company's Units (each consisting of one share of Common Stock and one Redeemable Common Stock Purchase Warrant) covered by such Registration Statement commenced on April 10, 1996. R.J. Steichen & Company acted as the managing underwriter (the "Representative") for the offering. A total of 2,530,000 Units were registered. The aggregate offering price of the registered Units was $14,547,500. A total of 2,300,000 Units were sold, for an aggregate offering price of $13,225,000.

The offering has not yet terminated. The Company is maintaining the effectiveness of the Registration Statement in order to allow the holders of such Redeemable Common Stock Purchase Warrants to receive registered shares of Common Stock upon the exercise of such warrants.

The amount of expenses incurred for the Company's account in connection with the issuance and distribution of the securities registered are as follows:

Underwriting discounts and commissions:	$1,058,000
Finder's fees:	0
Expenses paid to or for underwriters:	330,625
Other expenses:	275,000
Total expenses	$1,663,625

All such expenses were paid directly or indirectly to others.

The net offering proceeds to the Company after deducting expenses were $11,561,375.

The amount of net offering proceeds to the Company used for the following purposes is as follows:

Construction of plant, building and facilities:	$0
Purchase and installation of machinery and equipment:	$80,049
Purchase of real estate:	$0
Acquisition of other businesses:	$0
Repayment of indebtedness:	$2,861,281
Working capital:	$2,451,167
Temporary investments:	
(Interest Bearing Money Market Accounts)	$0
Other purposes:	
(Sales and Marketing)	$3,022,963
(Research and Development)	$3,145,915

All such payments were made directly or indirectly to others.

The use of proceeds contained herein does not represent a material change in the use of proceeds described in the prospectus.

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, 1997

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 14, 1997

By /s/ Paul J. Wendorff

Paul J. Wendorff
Its Chief Executive Officer

Dated: November 14, 1997

By /s/ Wesley W. Winnekins

Wesley W. Winnekins
Its Chief Financial Officer

EXHIBIT INDEX

3-MOS
DEC-31-1997
SEP-30-1997
348,927
2,006,979
614,307
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162,727
3,189,164
447,050
295,536
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EXHIBIT 99.1

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 matters, 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 any or more of the following factors may cause actual results to differ materially from those in such forward-looking statement or statements:

DEVELOPMENT STAGE COMPANY. The Company was incorporated in May 1994. The Company has only a limited history of operations, and its sales and marketing efforts have not yet generated predictable or significant revenues. The Company's prospects for success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation and development of a new business in an emerging industry. In addition, due to the uncertainty in growth of a development stage company and the rate of change in the industry perceived by the Company, the Company is uncertain of the time frame or amount of funding required to accomplish its business objectives.

DEVELOPING MARKET; MARKET ACCEPTANCE. The market for educating and training businesses has historically been served by consultants, instructor-led training and training publications such as books, manuals and tapes. Currently, there is little use of interactive multimedia education and training products by businesses, and many of the Company's potential customers do not own or have access to multimedia compatible equipment. The Company's future success will depend upon, among other factors, the extent to which companies acquire multimedia equipment compatible with the Company's products, the adoption and use of interactive multimedia education and training programs and the Company's ability to develop its custom multimedia service business. In addition, the Company's success will depend in part on its ability to market and sell multiple copies of its products to large corporate customers. In the event that adoption and use of multimedia equipment compatible with the Company's products do not become widespread, the number of potential customers of the Company will be limited. There can be no assurance that the Company's products, the prices the Company charges for its products or its custom multimedia services will be acceptable to the market, or that the Company will be able to sell multiple copies of its existing products to large corporate customers.

LIMITED MARKETING CAPABILITY. The Company currently has a small sales and marketing staff and limited number of strategic alliances relating to distribution of its products. There can be no assurance that the Company will be able to build a suitable sales force or enter into satisfactory marketing alliances with third parties, or that its sales and marketing efforts will be successful.

DEPENDENCE ON DIVERSIFICATION OF PRODUCT OFFERINGS. The Company currently has a limited number of product offerings, and purchasers of the Company's products are not required to purchase additional products. Accordingly, the Company's products represent non-recurring revenue sources, and the success of the Company is dependent, in part, on its ability to develop sustained demand for its current products and to develop and sell additional products. There can be no assurance that the Company will be successful in developing and maintaining such demand or in developing and selling additional products.

DEPENDENCE ON EVOLVING INDUSTRY STANDARDS. The Company's initial product offerings prepare businesses for adherence to worldwide management standards. The failure of the Company to enhance its products in a timely manner to changes in the standards, the lack of public acceptance of such standards or the delay in introduction of or enhancement to such standards would materially adversely affect the Company's operations.

TECHNOLOGICAL CHANGE. The industry in which the Company competes is characterized by rapid technological change. The introduction of products embodying new technology can render existing products and product formats obsolete and unmarketable. The Company's success will depend on its ability to anticipate changes in technology and to develop and introduce new and enhanced products in a timely manner in response to technological changes, or if products or product enhancements by the Company do not achieve market acceptance, the Company's business would be materially adversely affected.

FUTURE ADDITIONAL CAPITAL REQUIREMENTS; NO ASSURANCE FUTURE CAPITAL WILL BE AVAILABLE. If the Company is unable to generate substantial revenues from its operations or if the Company's expenses exceed expectations, the Company will likely require additional funds to meet its capital requirements. The Company does not currently have available bank financing. The Company may be required to raise additional funds through public or private financings, including equity or debt financings, or through collaborative arrangements. There can be no assurance that additional financing would be available to the Company on favorable terms, or at all. If funding is not available when needed or on acceptable terms, the Company may be forced to curtail its operations significantly or cease operations and abandon its business entirely.

COMPETITION. The business education and training industry, as well as the custom multimedia services industry, is highly competitive. A large number of companies are currently developing interactive, multimedia-based training, educational and instructional aids. Competitors also include national, regional and local accounting firms engaged in industrial consulting and instructor-led training and companies which market training tools such as books, videos and audio tapes. Some of the Company's existing competitors, as well as a number of potential competitors, have larger technical staffs, more established marketing and sales organizations, and greater financial resources than the Company. There can be no assurance the Company will be able to compete successfully with such companies, or at all.

FLUCTUATIONS IN OPERATING RESULTS. The Company's future operating results may vary substantially from quarter to quarter. At its current stage of operations, the Company's quarterly revenues and results of operations may be materially affected by the timing of the development and market acceptance of the Company's products. Generally, operating expenses will be higher during periods in which product development costs are incurred and marketing efforts are commenced. Due to these and other factors, including the general economy, stock market conditions and announcements by the Company or its competitors, the market price of the securities offered hereby may be highly volatile.

DEPENDENCE ON KEY PERSONNEL; LACK OF EMPLOYMENT AND NONCOMPETITION AGREEMENTS. The success of the Company is dependent in large part upon the ability of the Company to attract and retain key management and operating personnel. Qualified individuals are in high demand and are often subject to competing offers. There can be no assurance that the Company will be able to attract and retain the qualified personnel needed for its business. The Company has no employment or noncompetition agreements with any of its management or other personnel.

DEPENDENCE ON ABILITY TO RETAIN SUBJECT MATTER EXPERTS. The Company's product development strategy, including off-the-shelf and custom multimedia products, may require the Company to retain third-party subject matter experts to perform research and development functions by providing accurate and informative content for the Company's products. There can be no assurance that the Company will be able to continue to attract and retain qualified subject matter experts required to develop new products, enhance existing products and satisfy customer contractual requirements. The inability of the Company to attract and retain such experts could have a material adverse effect on the Company and its prospects.

INTELLECTUAL PROPERTY. The Company regards its multimedia products as proprietary and relies primarily on a combination of statutory and common law copyright, trademark and trade secret laws, customer licensing agreements, employee and third-party nondisclosure agreements and other methods to protect its proprietary rights. Despite these precautions, it may be possible for a third party to copy or otherwise obtain or use the Company's products or technology without authorization, or to develop similar products or technology independently. If unauthorized use or copying of the Company's products were to occur to any substantial degree, the Company's business and results of operations could be materially adversely affected. There can be no assurance that the Company's means of protecting its proprietary rights will be adequate or that the Company's competitors will not independently develop similar products.

The Company believes that developers of multimedia products may increasingly be subject to such claims as the number of products and competitors in the industry grows and the functionality of such products in the industry overlaps. Any such claim, with or without merit, could result in costly litigation and could have a material adverse effect on the Company.

LACK OF PRODUCT LIABILITY INSURANCE. The Company may face a risk of exposure to product liability claims in the event that use of its products is alleged to have resulted in damage to its customers. The Company does not currently carry product liability insurance. There can be no assurance that such insurance will be available on commercially reasonable terms, or at all, or that such insurance, even if obtained, would adequately cover any product liability claim. A product liability or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on the business and prospects of the Company.