

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 March 31, 1999

Commission file number: 0-27862

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

MINNESOTA
State or other jurisdiction of
incorporation of organization

41-1781991
I.R.S. Employer Identification No.

SUITE 115
6121 BAKER ROAD
MINNETONKA, MINNESOTA 55344
Address of principal executive offices

(612) 253-4700
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 April 30, 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. Since the Company has determined that it will cease its current business operations, and operate solely as a public shell company while it 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

	March 31, 1999	December 31, 1998
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 188,992	\$ 291,697
Accounts receivable	33,264	231,525
Prepaid expenses and other current assets	87,880	40,299
	-----	-----
Total current assets	310,136	563,521
	-----	-----
Fixed assets, net	48,833	63,833
Restricted cash	111,000	111,000
Other assets	9,356	9,356
	-----	-----
Total assets	\$ 479,325	\$ 747,710
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 33,185	\$ 38,733
Accrued liabilities	28,599	31,938
Deferred revenue	69,445	49,495
Other current liabilities	0	1,572
	-----	-----
Total current liabilities	131,229	121,738
Long-term liabilities	0	0
	-----	-----
Total liabilities	131,229	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	(15,085,370)	(14,807,494)
	-----	-----
Total stockholders' equity	348,096	625,972
	-----	-----
Total liabilities and stockholders' equity	\$ 479,325	\$ 747,710
	-----	-----

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
STATEMENT OF OPERATIONS
(UNAUDITED)

	Three months ended March 31,	
	1999	1998
Product revenues	\$ 72,824	\$ 131,695
Service revenues	800	112,644
Total revenues	73,624	244,339
Cost of product revenues	17,436	31,738
Cost of service revenues	0	92,601
Total cost of revenues	17,436	124,339
Gross profit	56,188	120,000
Operating expenses:		
Sales and marketing	68,095	155,251
Research and development	68,506	135,308
General and administrative	200,893	332,416
Total operating expenses	337,494	622,975
Operating loss	(281,306)	(502,975)
Interest income (expense), net	3,430	23,769
Net loss	\$ (277,876)	\$ (479,206)
Basic and diluted earnings (loss) per share	\$ (0.06)	\$ (0.10)
Weighted average common shares outstanding	4,677,407	4,677,407

See accompanying notes to the financial statements.

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

	Three months ended	
	March 31,	
	1999	1998
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (277,876)	\$ (479,206)
Reconciliation of net loss to net cash used by operating activities:		
Depreciation and amortization	15,000	22,500
Changes in assets and liabilities:		
Accounts receivable	198,261	215,890
Inventory	0	2,161
Prepaid expenses and other current assets	(47,581)	(18,913)
Accounts payable	(5,548)	22,924
Accrued liabilities	(3,339)	(96,921)
Deferred revenue	19,950	(64,013)
Other current liabilities	(1,572)	(1,819)
	-----	-----
Net cash used by operating activities	(102,705)	(397,397)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets, net of retirements	0	(4,793)
Purchases of short-term investments	0	(20,717)
	-----	-----
Net cash used by investing activities	0	(25,510)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	0	0
	-----	-----
Net cash provided (used) during period	(102,705)	(422,907)
CASH AND CASH EQUIVALENTS:		
Beginning of period	291,697	487,994
	-----	-----
End of period	\$ 188,992	\$ 65,087
	-----	-----

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 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. Since inception, the Company has developed several off-the-shelf multimedia training products within the areas of international quality and environmental management standards. To better align with the needs of the marketplace, the Company recently began offering multimedia and web development services to help customers improve business performance through technology-assisted knowledge transfer. The Company consults with its customers to identify initiatives and corporate best practices that are key to improving productivity, quality, cost reduction and time to market. The Company then uses its expertise with interactive technologies, such as the Web and multimedia, to develop solutions that foster enterprise-wide learning and culture change.

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.

Operating results for the three months ended March 31, 1999 are not necessarily indicative of the operating results to be expected for the year ending December 31, 1999, since the Company has decided to cease its current business operations. 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 quarters ended March 31, 1999 and 1998.

RESULTS OF OPERATIONS

REVENUES. Revenues were \$73,624 for the first quarter of 1999, a 70% decrease from revenues of \$244,339 for the first quarter of 1998. The revenue decrease was due primarily to fewer sales opportunities and longer than anticipated sales cycles for contract service opportunities that were in the sales pipeline.

For the first quarter of 1998, revenue from three customers accounted for 57% of total revenues for the quarter.

COST OF REVENUES. Cost of revenues were \$17,436 for the first quarter of 1999, compared to \$124,339 for the first quarter of 1998. The decrease in cost of revenues was due to the decrease in revenues.

OPERATING EXPENSES. The Company's operating expenses for the first quarter of 1999 were \$337,494, a 46% decrease from operating expenses of \$622,975 in the first quarter of 1998. This decrease in operating expenses between the first quarter of 1999 and 1998 was due primarily to expense controls the Company implemented to conserve capital.

- (a) SALES AND MARKETING. Sales and marketing expenses were \$68,095 for the first quarter of 1999 compared to \$155,251 for the first quarter of 1998, a 56% decrease. This decrease was due primarily to lower staffing, travel and general selling expenses, along with cutbacks in direct marketing initiatives such as tradeshow and marketing literature expenses.
- (b) RESEARCH AND DEVELOPMENT. Research and development expenses were \$68,506 for the first quarter of 1999 compared to \$135,308 for the first quarter of 1998, a 49% decrease. This decrease was primarily attributed to a decrease in development staff as the Company moved to a contracted service business model. Development costs associated with contracted services are deferred until related service revenues are recognized, at which time, such costs are expensed as cost of revenues.
- (c) GENERAL AND ADMINISTRATIVE. General and administrative expenses were \$200,893 for the first quarter of 1999 compared to \$332,416 for the first quarter of 1998, a 40% decrease. This decrease was due primarily to a decrease in headcount and lower expenses for rent, travel, equipment leases and administrative operating costs due to an overall drop in Company personnel.

OTHER INCOME (EXPENSE). The Company's net other income was \$3,430 for the first quarter of 1999, compared to net other income of \$23,769 for the first quarter 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 was \$277,876 for the first quarter of 1999, compared to a net loss of \$479,206 for the first quarter of 1998. Since the Company has decided to cease its current business operations, the Company does not expect to incur additional losses in 1999, except for costs relating to operations for April of 1999, activities relating to the shut down of operations during May of 1999 and costs relating to SEC public filing requirements. See "Recent Developments."

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were \$188,992 as of March 31, 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 for the quarter.

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, the Company intends to comply with all public company filing requirements in order to maintain its status as 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.

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 March 31, 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: May 17, 1999

By /s/ Paul J. Wendorff

Paul J. Wendorff
Its Chief Executive Officer

Dated: May 17, 1999

By /s/ Wesley W. Winnekins

Wesley W. Winnekins
Its Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Page No.
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27.1	Financial Data Schedules.....	
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3-MOS

DEC-31-1999		
MAR-31-1999		
	188,992	
	0	
	33,264	
	0	
	0	
	310,136	
	453,004	
	404,171	
	479,325	
131,229		0
0		0
	0	
	46,774	
	301,322	
479,325		
	73,624	
	77,054	
	17,436	17,436
	17,436	
	337,494	
	0	
	0	
	(277,876)	
	0	
(277,876)		
	0	
	0	
		0
	(277,876)	
	(.06)	
	(.06)	

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. On April 27, 1999, the Company announced that it would cease current 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 will be found.