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, 1996

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 300 11200 WEST 78TH STREET EDEN PRAIRIE, MINNESOTA 55344	(612) 996-6777
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.

Yes |X| No

At May 23, 1996, 4,676,857 shares of registrant'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 March 31, 1996.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 1996	December 31, 1995
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 1,257,741	$ 118,916
Accounts receivable	81,343	18,237
Inventory	35,190	28,359
Prepaid expenses	220,591	8,312
Total current assets	1,594,865	173,824
Fixed assets, net	433,503	269,852
Restricted cash	119,000	119,000
Other assets	16,780	14,116
Total assets	$ 2,164,148	$ 576,792
LIABILITIES, MANDATORILY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS'EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 243,075	$ 188,623
Accrued liabilities	106,284	90,417
Capitalized lease obligation	9,201	14,127
Notes payable	0	201,002
Convertible notes payable, net	2,588,701	0
Other current liabilities	3,175	0
Total current liabilities	2,950,436	494,169
Long-term liabilities	0	0
Total liabilities	2,950,436	494,169
Mandatorily redeemable convertible preferred stock, $.01 par value, 5,000,000 shares authorized; 726,900 shares outstanding	2,125,962	2,125,962
Stockholders' equity (deficit):		
Common stock, $.01 par value, 20,000,000 shares authorized; 1,643,611 shares outstanding	16,436	16,436
Additional paid-in capital	1,720,397	1,384,397
Accumulated deficit during the development stage	(4,649,083)	(3,444,172)
Total stockholders' equity (deficit)	(2,912,250)	(2,043,339)
Total liabilities, mandatorily redeemable preferred stock and stockholders' equity (deficit)	$ 2,164,148	$ 576,792

See accompanying notes to the financial statements.

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

	Three months ended March 31, 1996	Three months ended March 31, 1995
Revenues	$ 122,809	$ 3,290
Cost of revenues	23,852	537
Gross profit	98,957	2,753
Operating expenses:		
Sales and marketing	432,320	140,423
Research and development	346,337	243,968
General and administrative	278,113	173,262
Total operating expenses	1,056,770	557,653
Operating loss	(957,813)	(554,900)
Other income (expense):		
Interest income (expense), net	(172,356)	819
Debt offering costs	(74,741)	0
Total other income (expense)	(247,097)	819
Net loss	$(1,204,910)	$ (554,081)
Net loss per common and common equivalent share	$ (0.73)	$ (0.34)
Weighted average common and common equivalent shares	1,643,611	1,643,611
SUPPLEMENTARY DATA:		
Supplemental net loss per common and common equivalent share	$ (0.32)	
Supplemental weighted average common and common equivalent shares	2,938,304	

See accompanying notes to the financial statements.

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

	Three months ended March 31, 1996	Three months ended March 31, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,204,910)	$ (554,081)
Reconciliation of net loss to net cash used by operating activities:		
Depreciation and amortization	30,000	17,076
Noncash interest expense related to warrants	124,702	0
Changes in assets and liabilities:		
Accounts receivable	(63,106)	(2,114)
Inventory	(6,831)	(32,732)
Prepaid expenses	(212,279)	3,822
Accounts payable	54,452	(10,376)

Accrued liabilities	19,041	32
Net cash used by operating activities	(1,258,931)	(578,373)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets, net of retirements	(193,651)	(36,190)
Purchase of other assets	(2,665)	0
Sale of short-term investment	0	30,000
Net cash used by investing activities	(196,316)	(6,190)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of capital lease obligation	(4,926)	(6,926)
Proceeds from convertible note payable	2,800,000	100,000
Repayment of notes payable	(201,002)	0
Net cash provided by financing activities	2,594,072	93,074
Net cash provided (used) during period	1,138,825	(491,489)
CASH AND CASH EQUIVALENTS:		
Beginning of period	118,916	527,461
End of period	$ 1,257,741	$ 35,972
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 57,672	$ 1,100

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1996
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Reality Interactive, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information. 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 months ended March 31, 1996 are not necessarily indicative of the operating results to be expected for the year ending December 31, 1996.

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 financial statements included in its Registration Statement on Form SB-2

NOTE 2. SUPPLEMENTARY LOSS PER SHARE DATA

Supplementary Loss per Share Data reflects adjustments for: (i) the issuance of 567,793 shares of Common Stock in connection with the repayment/conversion of convertible debt from certain net proceeds received from the Company's initial public offering ("IPO") that closed on April 16, 1996 (ii) the conversion of 726,900 shares of Series A Convertible Preferred Stock into Common Stock that occurred in connection with the IPO and (iii) the decrease of net loss by $182,373 and $74,741 for interest expense and debt offering costs, respectively, related to the issuance of convertible debt. These adjustments were made as though these transactions had occurred on January 1, 1996.

Common stock equivalents, consisting of shares of Common Stock which might be issued upon exercise of stock options and warrants, are not included in weighted average common shares outstanding in periods where losses are reported since their inclusion would be anti-dilutive. For purposes of the Company's recent IPO, loss per common share was calculated pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83 ("SAB 83"). SAB 83 requires the inclusion of certain common stock equivalents in the calculation of weighted average common shares outstanding even if their inclusion is anti-dilutive.

NOTE 3. SUBSEQUENT FINANCING TRANSACTIONS

On January 19, 1996, the Company closed a $2,800,000 convertible bridge note financing (the "Bridge Notes") in a private placement, resulting in net proceeds to the Company of $2,626,570 after payment of agent's commissions and related expenses. The Bridge Notes provided for interest at 10% per annum and matured on the earlier of July 31, 1996 or 30 days after the effective date of an IPO. In connection with this financing, the Company also issued detachable warrants to purchase a total of 560,000 shares of common stock to the purchasers of the Bridge Notes. The Bridge Notes were convertible into common stock at a price equal to $3.94, which was 75% of $5.25 (the per share value assigned to the Common Stock at the time of the IPO). On May 10, 1996, 30 days after the effective date of the IPO, the Company made payments totaling $2,861,281 to repay the Bridge Notes, including accrued interest of $86,285. Approximately $25,000 of the Bridge Notes were converted to Common Stock. The Company will recognize an extraordinary loss of approximately $220,000 in its second quarter ending June 30, 1996 as a result of the early repayment of its bridge note financing.

On April 10, 1996, the Company's IPO for 2,200,000 units was declared effective by the SEC. Each unit sold consisted of one share of Common Stock and one Redeemable Common Stock Purchase Warrant to purchase one share of Common Stock. The sale of such units resulted in gross proceeds of $12,650,000 and net proceeds of $11,331,750 after payment of the underwriting discount and related expenses. The net proceeds will be used for sales and marketing, repayment of bridge debt financing, research and development, purchase of equipment and working capital.

On May 15, 1996, the Company issued an additional 100,000 units to its underwriter to cover over-allotments, resulting in gross proceeds of $575,000 and net proceeds of $514,625 after payment of the underwriting discount and related expenses.

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

OVERVIEW

Reality Interactive, Inc. (the "Company") was formed in May 1994 to design, develop and market interactive multimedia learning software products primarily for sale to Fortune 2000 companies. The Company is a development stage company and, as a result, has undergone significant changes since its inception as the focus of the Company's activities has shifted from organization to product design and development to sales and marketing. Accordingly, the Company's revenue and expenses for the periods presented below are not necessarily indicative of future results.

The Company has been unprofitable since its inception and expects to incur operating losses at least through 1997. During the period from May 24, 1994 (inception) through March 31, 1996, the Company incurred cumulative losses of $4,649,083. The Company expects its operating expenses to continue to increase as it continues to develop new products and increase its sales and marketing efforts. To become profitable, the Company must significantly increase revenues from its initial product, the ISO 9000 Registration Series, and must continue to introduce new products to the market. Future operating results will depend upon many factors, including the demand for the Company's products, the level of product and price competition, the Company's success in developing its direct sales force and indirect distribution channels, general economic conditions and the ability of the Company to develop and market new products and to control costs.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain statement of operations data as a percentage of revenues.

	Three months ended March 31, 1996	Three months ended March 31, 1995
Revenues	100%	100%
Cost of revenues	19	16
Gross profit	81	84
Operating expenses:		
Sales and marketing	352	4,268
Research and development	282	7,415
General and administrative	227	5,266

Total operating expenses	861	16,949
Operating loss	(780)	(16,865)
Other income (expense):		
Interest income (expense), net	(140)	25
Debt offering costs	(61)	0
Total other income (expense)	(201)	25
Net loss	(981)%	(16,840)%

REVENUES. Revenues were $122,809 for the quarter ended March 31, 1996, a 3,633% increase from revenues of $3,290 for the quarter ended March 31, 1995. The revenue increase was due primarily to the availability of all five titles of the Company's initial product, ISO 9000 Registration Series, which was released as a complete series in August 1995, compared to the availability and sale of only one title of the ISO 9000 Registration Series during the first quarter of 1995. Also contributing to the revenue increase was the addition of five direct sales employees in December 1995 and January 1996 and two telesales employees in January 1996. During the remainder of 1996, the Company expects revenues to increase as new direct sales employees are added, new sales channel partners are identified and new products are introduced.

GROSS PROFIT. The decrease in gross profit to 81% of revenues in the first quarter of 1996 from 84% of revenues in the first quarter of 1995 was primarily due to royalties paid to the American Society of Quality Control ("ASQC"), a sales channel for the Company. The Company began paying royalties to ASQC in May 1995 when both parties entered into a three-year joint marketing and distribution agreement (the "Agreement") for the ISO 9000 Registration Series. The Agreement also involves co-labeling of the product.

OPERATING EXPENSES. The Company's operating expenses for the first quarter of 1996 were $1,056,770, a 90% increase from operating expenses of $557,653 in the first quarter of 1995. This increase in operating expenses between the first quarter of 1996 and 1995 was due primarily to the following:

(a) Sales and marketing expenses were $432,320 for the first quarter of 1996 compared to $140,423 for the first quarter of 1995, a 208% increase. This increase was due primarily to the addition of 11 new direct sales, telesales and marketing positions and the expansion of direct marketing programs. The Company expects its sales and marketing expenses to increase as it adds additional direct sales employees and begins to market new products currently being developed.

(b) Research and development expenses were $346,337 for the first quarter of 1996 compared to $243,968 for the first quarter of 1995, a 42% increase. This increase was attributed to the hiring of additional employees to develop three new products, the QS-9000 Compliance Series, a multi-title product dealing with automotive quality standards, the ISO 14000 Conformance Series, a multi-title product dealing with environmental management standards and Pollution Prevention, a one-title product dealing with the key concepts of a pollution prevention program. The Company began developing the ISO 14000 Conformance Series in August 1995, the QS-9000 Compliance Series in January 1996 and Pollution Prevention in February 1996. The Company expects its research and development expenses to increase as it advances further into the development cycle of the products currently under development and begins to develop new products.

(c) General and administrative expenses were $278,113 for the first quarter of 1996 compared to $173,262 for the first quarter of 1995, a 61% increase. This increase was due primarily to the addition of one position in accounting and finance, increased rent expense related to a larger office, additional depreciation expense on a higher level of fixed assets and increases in professional fees. The Company expects that its general and administrative expenses will increase as it looks to hire additional accounting staff, expand its office space and incurs costs associated with being a public company.

OTHER INCOME (EXPENSE). The Company's net other expense was $247,097 for the first quarter of 1996 compared to net other income of $819 for the first quarter of 1995. This difference was primarily the result of expenses associated with the Company's convertible bridge note financing, which resulted in cash interest expense during the first quarter of 1996 of $57,671, noncash interest expense of $124,702 related to detachable warrants and amortization expense of $74,741 related to the expensing of prepaid costs the Company incurred to obtain the bridge note financing. The Company also realized interest income of $10,017 in the first quarter of 1996 from the investment of bridge note proceeds.

NET LOSS. Net loss was $1,204,910 for the first quarter of 1996, compared to a net loss of $554,081 for the first quarter of 1995. The Company expects to continue to incur losses for at least the next two years as it continues to undertake substantial expenditures to develop its products and to increase its sales and marketing efforts.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were $1,257,741 as of March 31, 1996, compared to $118,916 as of December 31, 1995. The increase in cash and cash equivalents was attributed to the convertible bridge note financing from January 1996, which resulted in net proceeds of $2,626,570. The decrease in cash and cash equivalents subsequent to the receipt of the net proceeds from the convertible bridge note financing was due primarily to the net loss from operations, acquisition of fixed assets totaling approximately $196,000 and repayment of notes payable totaling approximately $201,000. See Note 3 for further information on financing transactions subsequent to March 31, 1996.

Although the Company anticipates that it will experience operating losses and negative cash flow from operations at least through 1997, and the Company does not currently have bank financing available, the Company believes that its current cash balances, increased by proceeds from its initial public offering, will be sufficient to meet its working capital and capital expenditure needs at least through 1997. 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 the end of 1997. There can be no assurance that debt or equity financing would be available on favorable terms or at all.

PART II - OTHER INFORMATION

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

On February 16, 1996, the Company held a special shareholders' meeting to vote upon four proposals relating to the Company's initial public offering (the "IPO"). These four proposals are described below. All four proposals were approved.

The first matter voted upon was a proposal to amend the certificate fixing shares for the Company's Series A Convertible Preferred Stock (the "Preferred Stock") to lower the public offering price at which such shares are mandatorily converted to Common Stock from $6.00 to $4.50. This proposal required the affirmative vote of a majority of the outstanding shares of Common Stock, voting separately as a class, and the affirmative vote of a majority of the outstanding shares of Preferred Stock, voting separately as a class, in order for it to be approved. The holders of Common Stock approved this proposal by the following vote: 1,191,091 For, 0 Against, 422,520 Withheld, and 30,000 Abstained. The holders of Preferred Stock approved this proposal by the following vote: 483,732 For, 0 Against, 243,168 Withheld, and 0 Abstained.

The second matter voted upon was a proposal to amend and restate the Company's Amended Articles of Incorporation simultaneously with the closing of the IPO to increase the number of shares of authorized capital stock and to eliminate the Preferred Stock after the outstanding shares of this series are converted into Common Stock. This proposal required the affirmative vote of a majority of the outstanding shares of the Company's capital stock, voting together as a class, and the affirmative vote of a majority of the outstanding shares of Common Stock, voting separately as a class, in order for it to be approved. The holders of all outstanding shares of the Company's capital stock approved this proposal by the following vote: 1,704,824 For, 0 Against, 665,687 Withheld, and 0 Abstained. The holders of Common Stock approved this proposal by the following vote: 1,221,091 For, 0 Against, 422,520 Withheld, and 0 Abstained.

The third matter voted upon was a proposal to approve the Company's 1996 Directors' Stock Option Plan. The fourth matter voted upon was a proposal to amend the Company's 1994 Stock Incentive Plan to increase the number of shares reserved for issuance upon the conversion of options issued under such plan from 300,000 shares to 700,000 shares. The third and fourth proposals voted upon each required the affirmative vote of a majority of the outstanding shares of the Company's capital stock, voting together as a class, in order for them to be approved. The holders of all outstanding shares of the Company's capital stock approved the third proposal by the following vote: 1,614,824 For, 90,000 Against, 665,687 Withheld, and 0 Abstained. The holders of all outstanding shares of the Company's capital stock approved the fourth proposal by the following vote: 1,674,824 For, 30,000 Against, 665,687 Withheld, and 0 Abstained.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
10.1	First Amendment to Joint Marketing and Distribution Agreement between Reality Interactive, Inc. and American Society for Quality Control, Inc., dated May 1, 1996
+10.2	Joint Marketing and Distribution Agreement between Reality Interactive, Inc. and American Society for Quality Control, Inc., dated May 17, 1996
27.1	Financial Data Schedules
99.1	Cautionary Statement

\+ Pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, confidential portions of Exhibit 10.2 have been deleted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

(b) Reports on Form 8-K

No Reports on Form 8-K were filed during the quarter ended March 31, 1996

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 21, 1996 By /s/ Paul J. Wendorff

Paul J. Wendorff
Its Chief Executive Officer

Dated: May 21, 1996 By /s/ Wesley W. Winnekins

Wesley W. Winnekins
Its Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Page No.
10.1	First Amendment to Joint Marketing and Distribution Agreement between Reality Interactive, Inc. and American Society for Quality Control, Inc., dated May 1, 1996........	
+10.2	Joint Marketing and Distribution Agreement between Reality Interactive, Inc. and American Society for Quality Control, Inc., dated May 17, 1996..........................	
27.1	Financial Data Schedules....................................	
99.1	Cautionary Statement..	

\+ Pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, confidential portions of Exhibit 10.2 have been deleted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

EXHIBIT 10.1 - FIRST AMENDMENT TO JOINT MARKETING AND DISTRIBUTION AGREEMENT

THIS FIRST AMENDMENT TO JOINT MARKETING AND DISTRIBUTION AGREEMENT ("First Amendment") is entered into as of May 1, 1996 between REALITY INTERACTIVE, INC., a Minnesota corporation ("RII"), and AMERICAN SOCIETY FOR QUALITY CONTROL, INC., a New York corporation ("ASQC").

RECITALS

WHEREAS, RII and ASQC have entered into a Joint Marketing and Distribution Agreement, dated as of May 10, 1995, (the "Agreement"), with respect to the marketing and distribution in North America of the ISO 9000 Registration Series (the "Product"), as more fully described therein; and

WHEREAS, RII and ASQC wish to amend the Agreement to permit RII to use the trademarks and tradenames of ASQC in connection with sales worldwide of the Product, including any of the titles comprising the Product, along with clarifications to the Agreement.

NOW, THEREFORE, in consideration of the recitals and the mutual agreements and acknowledgments made in the Agreement and in this First Amendment, the parties hereby agree as follows:

1. CONTINUING EFFECT. Except to the extent modified or amended by this First Amendment, the Agreement shall continue to be in full force and effect.

2. TERRITORY. RII's and ASQC's Territory has been expanded to include the whole world.

3. USE OF ASQC TRADEMARKS AND ADVERTISING IN THE TERRITORY. RII may advertise and use the trademarks and tradenames of ASQC, including without limitation inclusion of ASQC's silkscreened trademark and logo on the Product and on the packaging for the Product (the "Marks"), for normal advertising, promotion, marketing and sales of the Product by RII in the Territory. In addition, RII shall not (i) use the Marks to incur any obligation or indebtedness on behalf of ASQC, (ii) use the Marks as part of its corporate or other legal name, or (iii) mortgage, pledge or in any way encumber the rights granted to RII with respect to use of the Marks.

4. CLARIFICATION. For purposes of clarification, the parties desire to set forth the following interpretations of the Agreement:

(a). it is understood by the parties that RII and its other approved distributor may appoint as many independent sales agents in North America as RII determines in its sole discretion; and

(b) it is understood by the parties that RII may appoint as many sales agents, sales representatives, resellers and distributors in territories outside of North America as RII determines in its sole discretion; and

(c) ASQC has granted a non-exclusive, perpetual and paid-up license to RII to include a digital copy of the North American language version of ISO 9000, known as ANSI/ISO/ASQC Q9000, in the Product.

(d) the Distribution Fee and Sales Credit section of the Agreement (EXHIBIT B) will apply to the whole world.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed as of the date written above.

REALITY INTERACTIVE, INC.	AMERICAN SOCIETY FOR QUALITY CONTROL, INC.
BY /s/ Wesley W. Winnekins	BY /s/ Brian J. LeHouillier
ITS Chief Financial Officer	ITS Director Programs & Operations

EXHIBIT 10.2 - JOINT MARKETING AND DISTRIBUTION AGREEMENT

THIS AGREEMENT is being entered into as of this 17th day of May, 1996, between REALITY INTERACTIVE, INC., a Minnesota corporation with its principal office at Suite 300, 11200 West 78th Street, Eden Prairie, Minnesota 55344 ("RII") and AMERICAN SOCIETY FOR QUALITY CONTROL INC., a New York corporation, with its principal place of business at 611 East Wisconsin Avenue, Milwaukee, Wisconsin 53201 ("ASQC").

RECITALS

WHEREAS, RII is the producer and publisher of a certain automotive quality control standards product published in electronic digital format and known as QS-9000 Compliance Series (the "Series");

WHEREAS, the Series will be comprised of four separate titles (individually, the "Title") as follows:

Starting the QS-9000 Process
Managing the QS-9000 Process
Building and Implementing the QS-9000 Quality System
Auditing the QS-9000 Quality System

The Titles and Series are collectively referred to herein as the "Product";

WHEREAS, ASQC promotes, markets and distributes quality control training materials including CD-ROM multimedia products;

WHEREAS, ASQC desires to act as a consignment seller of the Product and to sell the Product through its distribution channels; and

WHEREAS, RII is willing to grant ASQC the right to sell the Product on consignment and to allow ASQC a Distribution Fee in accordance with the terms and conditions as set forth herein.

AGREEMENTS

NOW, THEREFORE, in consideration of the recitals and the mutual agreements and acknowledgments made herein, the parties agree as follows:

1. APPOINTMENT. RII grants to ASQC the nonexclusive right, under the terms of this Agreement, to promote and sell the Products in the Territory (as defined below) and to bill customers for such sales and to collect the receivables. ASQC may not copy or modify the Product nor may ASQC remove any original contents from the Product package nor repackage the Product without the prior written consent of RII.

2. TERRITORY. The Territory shall be worldwide. ASQC and RII shall have the right to sell the Product throughout the Territory either directly, or through appointed independent sales representatives. RII shall also have the right to appoint other distributors to sell the Product in the Territory, provided ASQC consents to the appointment, which consent shall not be unreasonably withheld. The other distributors appointed by RII shall have the right to sell the product through independent sales representatives.

3. PRICE. RII retains the right to establish the retail price of any Title and of the Series (the "Retail Price") and to adjust the Retail Price from time to time upon ninety (90) days written notice to ASQC. ASQC shall not adjust the Retail Price without the prior written consent of RII, which consent RII may withhold in its sole discretion. The initial Retail Price for each of the Titles and the Series is set forth in Exhibit A hereto. If RII appoints another distributor in the Territory, or sells the Product through independent sales representatives, RII will not establish or permit retail prices for sales by that distributor, sales representatives or any representatives appointed by them, which are lower than the Retail Price for sales by ASQC. If RII makes direct sales, RII will not make such sales at a price lower than the Retail Price for sales by ASQC.

4. ORDERS BY ASQC. ASQC may place orders for the Product in such quantities as ASQC reasonably believes are necessary. Orders shall be placed in writing and must be placed at least seven (7) business days prior to the requested shipment date. RII shall make every reasonable effort to insure the shipment of the Product on or before ASQC's requested shipment date.

5. SHIPMENT. Packages containing the Product and any applicable RII

literature or documentation shall be shipped to ASQC F.O.B. to a warehouse designated by ASQC. RII shall not insert any special or extraordinary materials, including, but not limited to mail order or other promotional material in, or affix any special or extraordinary stickers or other items without obtaining ASQC's prior written consent. As used in this paragraph "special or extraordinary" shall mean printed material, inserts, stickers or other promotional material (i) not used by RII in or on its general release of any Title or of the Series, or (ii) that quotes a suggested wholesale, retail, or special price for any Title or for the Series.

6. MARKETING POLICIES; PRODUCT SUPPORT. The parties will develop a mutually acceptable marketing plan. ASQC agrees to use its best efforts to sell the Products in the Territory. ASQC will promptly respond to any inquiries for the purchase of Products that are forwarded to ASQC by RII. ASQC will maintain reasonable inventory levels of Products at one or more facilities. RII will provide all customers access to complete technical support for all Products and maintain a responsive customer support function.

7. DISTRIBUTION FEE AND SALES CREDIT. ASQC shall be entitled to a Distribution Fee on each unit of the Product which it sells to a customer. The amount of the Distribution Fee shall be calculated as described on Exhibit B and based on ASQC's Net Receipts. RII shall pay ASQC a Sales Credit on each unit of the Product which it sells to a customer, which Sales Credit shall be calculated as described on Exhibit B hereto and based on RII's Net Receipts. As used herein, "Net Receipts" means the net revenues of ASQC or RII, as the case may be, actually received from sales of the Product by any means or distribution channels, including sales by sales representatives, distributors and sales representatives appointed by distributors, exclusive of demonstration or promotional copies, returns, postage, freight or other actual shipping charges.

8. PAYMENT. On or before the 30th day after the end of each month during the term of this Agreement, ASQC and RII shall each submit to the other, in a mutually acceptable format, an accurate and complete report of the units of the Product sold and Net Receipts for the Product during the previous month. ASQC's statement shall be accompanied by ASQC's payment in the amount of its Net Receipts reduced by the Distribution Fee, and RII's statement shall be accompanied by RII's payment in the amount of the Sales Credit. All payments will be made in U.S. dollars.

9. TITLE, INSURANCE AND OTHER EXPENSES. Title to the Products shall be vested in RII at all times until passed directly to the customer. Title and risk of loss shall pass to the customer at such time as ASQC delivers the Products to the customer. RII shall keep the Products insured against such risks and in such amounts and according to such other terms as it may from time to time determine.

10. QUALITY AND WARRANTIES. RII warrants that the optical media on which the Product is distributed is free from defects in materials and workmanship. EXCEPT AS SPECIFICALLY PROVIDED IN THE PRECEDING SENTENCE, RII MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, WITH RESPECT TO THE PRODUCT, INCLUDING ITS CONTENT, QUALITY, PERFORMANCE, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. If a Product fails to meet this limited warranty, ASQC's sole and exclusive remedy is replacement or, at RII's option, refund of the purchase price. This section shall not limit RII's liability under sections 14, 16, and 21 below, with respect to intellectual property rights and indemnification. RII shall extend its standard warranty to purchasers of the Product, a copy of which is attached as Exhibit C, in the form in which it appears on the Product Registration Card packaged with the Product. ASQC shall not represent that RII makes any warranty other than this standard warranty.

11. USE OF RII TRADEMARKS AND ADVERTISING IN THE TERRITORY. ASQC may advertise and use the trade names, trademarks, images, likenesses or other information which is attached hereto as Exhibit D ("Approved Materials"), for normal advertising and promotion within the Territory. Upon reasonable notice, RII may withdraw or modify such authorization. All use of any Approved Materials in any marketing and promotion, including but not limited to advertisements and packaging, shall contain such trademark or other notice of attribution as may be specified by RII from time to time.

12. USE OF ASQC TRADEMARKS AND ADVERTISING IN THE TERRITORY. RII may advertise, and use the tradenames, trademarks, images, likenesses or other information which is attached hereto as Exhibit E, on the Product and on the packaging for the Product, for normal advertising, promotion, marketing and sales of the Product by RII in the Territory. Upon reasonable notice, ASQC may withdraw or modify this authorization.

13. LIMITATION ON USE OF THE MARKS BY RII. RII shall use the Marks only in the approved format. RII shall not adopt, use or attempt to register any modifications of the Marks or combinations of the Marks with any other Marks without the prior written approval of ASQC. In addition, RII shall not (i) use the Marks to incur any obligation or indebtedness on behalf of ASQC, (ii) use the Marks as part of its corporate or other legal name, or (iii) mortgage,

pledge or in any way encumber the rights granted to RII with respect to use of the Marks.

14. OWNERSHIP AND PROPRIETARY RIGHTS. RII represents and warrants that (i) it has all rights in and to copyrights, trade secrets and trademarks associated with the Product under this Agreement, including those in Exhibit E, (ii) the use of the literary and artistic materials and ideas contained or embodied in the Product, containers and advertising materials, if any, furnished to ASQC by RII in accordance with the terms of this Agreement, will not violate any law, or infringe upon, or violate any rights of any person, firm or corporation, and (iii) RII has no knowledge of any litigation, proceeding or claim pending or threatened against RII which may materially affect RII's rights in and to the Product, or the works and performances embodied thereon, the copyrights pertaining thereto, or the rights, licenses and privileges granted to ASQC hereunder.

15. RIGHTS TO INCLUDE ANSI/ISO/ASQC Q9000 IN PRODUCT. ASQC shall grant to RII a non-exclusive, perpetual and paid-up license to electronically imbed the North American language version for ISO 9000, known as ANSI/ISO/ASQC Q9000, in the Product.

16. ROYALTIES AND OTHER PAYMENTS. RII shall be solely responsible for and shall make any payments required to be made to any individual, entity or group representing authors of the Product, participants in the production of the works or performances embodied on the Product, and publishers or other persons having legal or contractual rights of any kind to participate in the receipts of such works or performances as a result of the transaction contemplated by this Agreement.

17. RIGHTS BELONGING TO RII. ASQC acknowledges that all intellectual property rights to the Product belong to RII or its licensers, as the case may be. ASQC will not alter the Product or any portion thereof, including the packaging, and will not remove RII's copyright notices, restricted rights legends, or any other notices from the Product or documentation.

18. COVENANTS OF ASQC AND RII. Each party covenants and represents that (i) except with the prior written approval of the other, it shall make no representations or warranties on behalf of the other in connection with the distribution of the Product, (ii) they will market the Product only in a manner consistent with the marketing policies determined in accordance with section 6, (iii) they will maintain accurate books of accounts in connection with any sales made by them pursuant to this Agreement, and (iv) they will insure that any sales representatives, distributors or sales representatives appointed by distributors will comply with these covenants.

19. EXCHANGE OF INFORMATION. ASQC will provide to RII, on a monthly basis and in a mutually acceptable format, a list of purchasers of the Product, including the name of the purchaser, the shipment address of the purchaser and the Title or Titles or Series purchased.

20. TAXES. ASQC shall be responsible for any taxes (including, but not limited to, sales, use, excise, telecommunications and gross receipts taxes) and other similar charges now or in the future imposed upon ASQC or any person or entity retained by it in connection with any aspect of its performance of this Agreement, exclusive of any taxes imposed directly on RII. The foregoing does not affect the definition of Net Receipts in section 7.

21. INDEMNIFICATION BY RII. RII will indemnify and hold harmless ASQC, its officers, employees and agents, from and against all loss, damages, liability, and expense, including attorney fees, incurred by reason of any claims, actions, suits or governmental investigations or proceedings, brought against or involving them or any of them, and which (i) relate to or arise out of a breach by RII of its warranties under sections 14 and 16 relating to intellectual property rights, or (ii) are brought by a third party and arise out of a claimed defect in the Product or a claim that the Products fail to meet warranties, representations or specifications made by RII.

22. INDEMNIFICATION BY ASQC. ASQC will indemnify and hold harmless RII, its officers, employees and agents, harmless from and against all loss, damages, liability, and expense, including attorney fees, incurred by reason of any claims, actions, suits or governmental investigations or proceedings, brought against or involving them or any of them, and which relate to or arise out of a breach by ASQC of its covenants under sections 17, 18 and 20.

23. TERM AND TERMINATION. The term of this Agreement is three years from the date of its execution. The term may be extended by mutual consent of the parties. This Agreement may not be terminated by either party during its term except for good cause. Good cause shall mean a material breach of this Agreement. Notwithstanding the foregoing, neither party may terminate for cause unless it notified the other party of any alleged material breach in writing and the breach has not been cured within 30 days from such notice. Notwithstanding

any other provisions of this paragraph, this Agreement will terminate automatically in the event either party ceases to do business in the event of either party's bankruptcy, insolvency, or assignment for the benefit of creditors, and RII or ASQC may terminate this Agreement effective immediately upon notice to the other party in the event of the conviction of, or commission by, the other party or any principal officer, shareholder, employee or any partner of the other party of any crime which may adversely affect the goodwill or reputation of RII or ASQC. Upon termination of this Agreement, ASQC shall return all of the Product and Documentation, as well as copies of promotional materials, marketing literature, written information and reports pertaining to the Product and that have been supplied by RII. Neither party shall advertise, market, sell or distribute the Product, directly or through distributors, or through sales representatives after termination of this Agreement by using the other party's trademarks, as attached hereto as Exhibits D and E.

24. RELATIONSHIP OF PARTIES. During the term of this Agreement, the relationship between RII and ASQC is that of independent contractors. Under no circumstances shall any of the employees of one party be deemed the employees of the other for any purpose.

25. CONFIDENTIALITY. Any specifications, samples, computer programs, technical information, lists of customers or potential customers or other proprietary business information or data, written, oral or otherwise, disclosed by one party to the other ("Confidential Information") shall remain the property of the disclosing party. The parties agree to hold all such Confidential Information in strict confidence and not to disclose same to any third party without the disclosing party's prior written consent. Upon expiration or termination of this Agreement, each party shall return to the other all such Confidential Information in its possession.

26. NOTICE. All notices shall be in writing and will be delivered personally, by confirmed facsimile transmission, by certified mail, or overnight courier, to the addresses specified below:

If to ASQC:	American Society for Quality Control, Inc. 611 East Wisconsin Avenue Milwaukee, WI 53201 Attn: Brian J. LeHouillier Director, Programs and Operations Telephone: (414) 272-8575 Fax: (414) 272-1734
If to RII:	Reality Interactive, Inc. Suite 300 11200 West 78th Street Eden Prairie, Minnesota 55344 Attn: Wesley W. Winnekins, CFO Telephone: (612) 996-6777 Fax: (414) 996-6799

Notice will be effective only upon receipt.

27. MISCELLANEOUS.

(a) SURVIVAL OF OBLIGATIONS. The parties agree that the obligations imposed by 21, 22 and 25 will survive the termination of this Agreement.

(b) ELECTION OF REMEDY AND WAIVER. The exercise of one right or remedy hereunder will not constitute an election or preclude either party from exercising or pursuing all other rights or remedies available to them under the law or as provided herein. The failure of either party at any time to require performance by the other part of any provision hereof will in no way affect the right to require such performance at any time thereafter, nor will the waiver by either party of a breach of any provision hereof constitute a waiver of any succeeding breach of the same or any other provision, or constitute a waiver of the provision itself.

(c) ASSIGNMENT, AMENDMENT AND SEVERABILITY. Neither this Agreement nor any rights hereunder or interest herein may be assigned by either party without the prior consent of the other, except to a parent, subsidiary or affiliate of the assigning party. This Agreement and the Exhibits hereto constitute the entire agreement regarding the subject matter contained in this Agreement between RII and ASQC and may not be substituted, varied or abridged in any manner, except as provided herein, unless by written amendment executed by an authorized agent or officer of ASQC and an authorized officer of RII. In the event any provision of this Agreement is found to be void or unenforceable, all remaining provisions of this Agreement will remain in full force and effect.

(d) GOVERNING LAW. This Agreement and the relationship between the parties hereto will be governed by and construed in accordance with the internal laws of the State of Wisconsin.

(e) TERMINATION OF PRIOR AGREEMENT. This Agreement and the Exhibits hereto terminates and supersedes all prior and contemporaneous agreements, written or oral, or created by a course of dealing, if any, between the parties with respect to the subject matter contained in this Agreement.

(f) ARBITRATION. All disputes arising out of this Agreement and relating to any relationships created hereby will be subject to binding arbitration. The party seeking arbitration must serve the other party by certified mail with a written demand for arbitration setting forth the question for arbitration. Arbitration will be held before a single arbitrator in Milwaukee, Wisconsin, if arbitration is sought by RII or in Minneapolis, Minnesota if arbitration is sought by ASQC. Arbitration will be pursuant to the rules of the American Arbitration Association, except as modified by this Agreement. In no event may the arbitrator award punitive damages. The prevailing party will be entitled to reimbursement from the other party for all expenses, costs and attorneys' fees incurred in the arbitration. The parties consent to the jurisdiction of the state and federal courts in Milwaukee, Wisconsin and the state and federal courts in Minneapolis, Minnesota, as the case may be, for any action to enforce the award of the arbitrator.

IN WITNESS WHEREOF, the parties have caused the Agreement to be executed as of the date written above.

REALITY INTERACTIVE, INC.	AMERICAN SOCIETY FOR QUALITY CONTROL, INC.
BY /s/ Wesley W. Winnekins	BY /s/ Brian J. LeHouillier
ITS Chief Financial Officer	ITS Director Programs & Operations

EXHIBIT A
REALITY INTERACTIVE QS-9000 COMPLIANCE SERIES
PRICING SCHEDULE

QS-9000 Compliance Series	Unit Price
Starting the QS-9000 Process	$995
Managing the QS-9000 Process	$995
Building and Implementing the QS-9000 Quality System	$995
Auditing the QS-9000 Qaulity System	$995
QS-9000 Compliance Series (4-CD set)	$3,595

EXHIBIT B

1.0 ASQC DISTRIBUTION FEE

ASQC will calculate a distribution fee based on Net Receipts (as defined in Section 8). The fee schedule is calculated as follows:

ASQC NET RECEIPTS	DISTRIBUTION FEE
$0 - $1.8M	(***)%
$1.8M +	(***)%

2.0 RII SALES CREDIT

RII will calculate a Sales Credit based on Net Receipts (as defined in Section 8). The credit schedule is calculated as follows:

RII NET RECEIPTS	SALES CREDIT
$0- 1.8M	(***)%
$1.8M +	(***)%

*** Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities

Exchange Act of 1934.

EXHIBIT C

STANDARD WARRANTY

Licensor warrants that the optical media on which the Product is distributed is free from defects in materials and workmanship. Licensor will replace defective media at no charge, provided you return the defective item with dated proof of payment to Licensor within ninety (90) days of the date of delivery. This is your sole and exclusive remedy for any breach of warranty. EXCEPT AS SPECIFICALLY PROVIDED ABOVE, LICENSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESSED OR IMPLIED, WITH RESPECT TO THE PRODUCT, INCLUDING ITS CONTENT, QUALITY, PERFORMANCE, MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT WILL LICENSOR BE LIABLE FOR DIRECT, INDIRECT, SPECIAL; INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF THE USE OR INABILITY TO USE THE PRODUCT OR DOCUMENTATION. EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO CASE SHALL LICENSOR'S LIABILITY EXCEED THE AMOUNT OF THE LICENSE FEE PAID. THE WARRANTY AND REMEDIES SET FORTH ABOVE ARE EXCLUSIVE AND IN LIEU OF ALL OTHERS, ORAL OR WRITTEN, EXPRESS OR IMPLIED. Some states do not allow the exclusion or limitation of implied warranties or limitation of liability for incidental or consequential damages, so that the above limitation or exclusion may not apply to you.

EXHIBIT D
RII TRADEMARKS

[LOGO] REALITY INTERACTIVE (TM)

REAL TOOLS FOR ACCELERATED LEARNING (TM)

[LOGO] REALITY INTERACTIVE (TM)
REAL TOOLS FOR ACCELERATED LEARNING (TM)

EXHIBIT E
ASQC TRADEMARKS

[LOGO] ASQC(R)

[LOGO] ASQC AUTOMOTIVE DIVISION

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, first began to ship the complete series of its initial product in August 1995, and accordingly, has only a limited history of operations. 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 a competitive 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 and adopt and use interactive multimedia education and training programs. 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 or the prices the Company charges for its products will be acceptable to the market or that the Company will be able to sell multiple copies 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 financings, or through collaborative arrangements. There can be no assurance that additional financing would be available 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 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. In the future, the Company will need to hire additional skilled personnel in the areas of research and development, sales and marketing. 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 requires 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 and enhance existing products. 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 product 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.

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