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, 1998

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 115 6121 BAKER ROAD Minnetonka, Minnesota 55345	(612) 253-4700
Address of principal executive offices	Registrant's telephone number

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. /X/ Yes / / No

At October 31, 1998, 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

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

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 limited growth of the market for multimedia education and training products; lack of market acceptance of the Company's products and services; 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; 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, 1998.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REALITY INTERACTIVE, INC.
BALANCE SHEET

	September 30, 1998 (Unaudited)	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 522,505	$ 487,994
Short-term investments	0	1,530,545
Accounts receivable	172,159	410,916
Inventory	64,574	71,197
Prepaid expenses and other current assets	39,410	52,357
Total current assets	798,648	2,553,009
Fixed assets, net	78,834	121,971
Restricted cash	169,500	58,500
Other assets	15,507	19,850
Total assets	$ 1,062,489	$ 2,753,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$15,490	$36,117
Accrued liabilities	31,130	130,213
Deferred revenue	19,643	181,906
Other current liabilities	0	1,694
Total current liabilities	66,263	349,930
Long-term liabilities	0	0
Total liabilities	66,263	349,930
Stockholders' equity:		
Common stock, $.01 par value, 25,000,000 shares authorized; 4,677,407 shares outstanding at both dates	46,774	46,774
Additional paid-in capital	15,386,692	15,386,692
Accumulated deficit	(14,437,240)	(13,030,066)
Total stockholders' equity	996,226	2,403,400
Total liabilities and stockholders' equity	$ 1,062,489	$ 2,753,330

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
STATEMENT OF OPERATIONS
(UNAUDITED)

	Three months ended September 30, 1998	Three months ended September 30, 1997	Nine months ended September 30, 1998	Nine months ended September 30, 1997
Product revenues	$106,900	$530,468	$325,810	$816,309
Service revenues	69,700	0	297,040	0
Total revenues	176,600	530,468	622,850	816,309
Cost of product revenues	13,067	95,022	70,430	172,918
Cost of service revenues	55,752	0	239,895	0
Total cost of revenues	68,819	95,022	310,325	172,918
Gross profit	107,781	435,446	312,525	643,391
Operating expenses:				
Sales and marketing	94,352	216,129	417,664	921,367
Research and development	142,459	225,988	439,450	1,251,518
General and administrative	242,598	434,630	911,253	1,269,409
Total operating expenses	479,409	876,747	1,768,367	3,442,294
Operating loss	(371,628)	(441,301)	(1,455,842)	(2,798,903)
Interest income (expense), net	9,449	39,369	48,668	146,845
Net loss	$(362,179)	$(401,932)	$(1,407,174)	$(2,652,058)
Basic and diluted loss per share	$(0.08)	$(0.09)	$(0.30)	$(0.57)
Weighted average common shares outstanding	4,677,407	4,677,407	4,677,407	4,677,407

See accompanying notes to the financial statements.

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

	Nine months ended September 30, 1998	Nine months ended September 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,407,174)	$(2,652,058)
Reconciliation of net loss to net cash used by operating activities:		
Depreciation and amortization	48,115	65,791
Changes in assets and liabilities:		
Accounts receivable	238,757	(516,911)
Inventory	6,623	(27,873)
Prepaid expenses and other assets	17,290	14,842
Accounts payable	(20,627)	(68,239)
Accrued liabilities	(99,083)	156,508
Deferred revenue	(162,263)	157,736
Other current liabilities	(1,694)	(1,961)
Net cash used by operating activities	(1,380,056)	(2,872,165)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(4,978)	(25,369)
Purchases of short-term investments	(32,977)	(157,267)
Sale of short-term investments	1,563,522	2,895,000
Cash restricted for operating leases	(111,000)	0
Net cash used by investing activities	1,414,567	2,712,364
CASH FLOWS FROM FINANCING ACTIVITIES:	0	0
Net cash provided (used) during period	34,511	(159,801)
CASH AND CASH EQUIVALENTS:		
Beginning of period	487,994	508,728
End of period	$522,505	$348,927

See accompanying notes to the financial statements.

REALITY INTERACTIVE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1998
(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.

Through the third quarter of 1997 the Company was in the development stage. The Company has an accumulated deficit of $14,437,240. To become profitable and to conserve capital, management's plans are to significantly increase revenues in part through custom multimedia projects and to control expenses. Future operating results will depend upon many factors, including the rate at which industry adopts interactive multimedia and Web technology for education, training and knowledge transfer, 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, 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 and nine months ended September 30, 1998 are not necessarily indicative of the operating results to be expected for the year ending December 31, 1998.

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, 1997.

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 quarter and nine months ended September 30, 1998 and 1997.

RESULTS OF OPERATIONS

REVENUES. Revenues were $176,600 for the third quarter of 1998, a 67% decrease from revenues of $530,468 for the third quarter of 1997. For the nine month period ended September 30, 1998, revenues were $622,850, a 24% decrease over revenues of $816,309 for the comparable period of 1997.

The revenue decrease was due primarily to a decrease in sales of the Company's off-the-shelf multimedia products. For the three and nine months ended September 30, 1998, products sales decreased approximately 80% and 60% respectively, compared to the same periods in 1997. Products sales decreased as a result of a smaller market for management standard compliance products than was originally believed to exist, which has caused the Company to move towards a more service oriented business model. Service revenues were $69,700 and $297,040 for the three and nine months ended September 30, 1998, compared to $0 for the same periods of 1997.

Revenues derived from development services are recognized on the percentage of completion method over the life of each project, which may range from three to nine months. The Company's use of the percentage of completion method of revenue recognition requires estimates of the degree of project completion. To the extent these estimates prove to be inaccurate, the revenues and gross profits, if any, reported during the periods where the project is ongoing may not accurately reflect the final results of the project. Provisions for any estimated losses on uncompleted contracts are made in the period in which such losses are determinable. Revenue is reported net of reimbursable expenses.

COST OF REVENUES. Cost of revenues were $68,819 for the third quarter of 1998, compared to $95,022 for the third quarter of 1997. For the nine month period ended September 30, 1998, cost of revenues were $310,325, compared to $172,918 for the same period of 1997. The decrease in cost of revenues for the third quarter ended September 30, 1998, compared to 1997, was primarily due to the decrease in product sales. The increase in cost of revenues for the nine months ended September 30, 1998, compared to 1997, was attributed to the cost associated with higher service revenues, which are more costly to produce than product revenues.

Project development costs include all direct labor costs and other direct costs related to service performance, such as contract labor, supplies and equipment costs. Such costs are recognized when related project revenues are earned. Cost of product revenues includes the cost of media duplication, packaging materials and royalties earned by business partners and subject matter experts. Such costs are recognized upon the sale and shipment of the Company's products.

OPERATING EXPENSES. The Company's operating expenses for the third quarter of 1998 were $479,409, a 45% decrease from operating expenses of $876,747 in the third quarter of 1997. For the nine month period ended September 30, 1998, operating expenses were $1,768,367, a 49% decrease over operating expenses of $3,442,294 for the same period of 1997. This decrease in operating expenses between 1998 and 1997 was due primarily to the following areas:

(a) SALES AND MARKETING. Sales and marketing expenses were $94,352 for the third quarter of 1998 compared to $216,129 for the third quarter of 1997, a 56% decrease. For the nine-month period ended September 30, 1998, sales and marketing expenses were $417,664, a 55% decrease from sales and marketing expenses of $921,367 for the same period of 1997. This decrease between periods was due primarily to fewer direct sales people, lower sales travel expenses and a decrease in the number of marketing programs.

The Company expects that sales and marketing expenses will remain consistent for the remainder of 1998.

(b) RESEARCH AND DEVELOPMENT. Research and development expenses were $142,459 for the third quarter of 1998 compared to $225,988 for the third quarter of 1997, a 37% decrease. For the nine month period ended September 30, 1998, research and development expenses were $439,450, a 65% decrease from research and development expenses of $1,251,518 for the same period of 1997. This decrease was primarily attributed to a decrease in the number of development personnel, and a shift towards providing custom development services, the costs of which get classified as cost of revenues when project revenues are recognized.

The Company expects that research and development expenses will remain consistent for the remainder of 1998.

(c) GENERAL AND ADMINISTRATIVE. General and administrative expenses were $242,598 for the third quarter of 1998 compared to $434,630 for the third quarter of 1997, a 44% decrease. For the nine month period ended September 30, 1998, general and administrative expenses were $911,253, a 28% decrease from general and administrative expenses of $1,269,409 for the same period of 1997. This decrease was due primarily to a decrease in headcount and lower expenses for executive travel, equipment leases and administrative operating costs due to an overall drop in Company personnel.

The Company expects that its general and administrative expenses will remain consistent for the remainder of 1998.

OTHER INCOME (EXPENSE). The Company's net other income was $9,449 for the third quarter of 1998, compared to net other income of $39,369 for the third quarter of 1997. For the nine-month period ended September 30, 1998, net other income was $48,668, compared to net other income of $146,845 for the same period of 1997. Net other income consists entirely of interest earned on short-term investments and cash and cash equivalents. The decrease between periods is attributed to a decrease in short-term investments and cash and cash equivalents.

NET LOSS. Net loss was $362,179 for the third quarter of 1998, compared to a net loss of $401,932 for the third quarter of 1997. For the nine-month period ended September 30, 1998, net loss was $1,407,174, compared to a net loss of $2,652,058 for the same period of 1997. The Company expects to continue to experience losses at least through the end of 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash, cash equivalents and short-term investments were $522,505 as of September 30, 1998, compared to $2,018,539 as of December 31, 1997. This decrease in cash, cash equivalents and short-term investments was due primarily to the net loss from operations for the six-months ended June 30, 1998.

As of September 30, 1998, the Company had outstanding letters of credit from a bank totaling $169,500. The letters of credit secure an operating lease of office furniture and an office lease for its business premises. The Company is required to maintain at the bank a cash amount equal to the letters of credit until such letters of credit expire. A letter of credit in the amount of $58,500 is scheduled to expire in November 1998, with the remaining letter of credit in the amount of $111,000 scheduled to expire in July 1999.

The Company anticipates that it will continue to experience operating losses and negative cash flow from operations at least through the end of 1998. 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 through the first quarter of 1999. 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 at an earlier time. 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.

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.

RECENT DEVELOPMENTS

On May 27, 1998, the Company's securities (Common Stock, Units and Warrants) were delisted from The Nasdaq Stock Market-SM-. The delisting was the result of noncompliance with the new minimum bid price requirement, pursuant to NASD Marketplace Rule 4310(c)(04), which became effective February 23, 1998.

Trading in the Company's securities now occurs on the Over The Counter Bulletin Board and will be subject to certain "Penny Stock Rules." Under Exchange Act Rule 15g-9, broker-dealers must take certain steps prior to selling a "penny stock," including: (i) obtaining financial and investment information from the investor; (ii) a written suitability questionnaire and purchase agreement signed by the investor; (iii) providing the investor a written identification of the shares being offered and in what quantity; and (iv) deliver to the investor a written statement setting forth the basis on which the broker-dealer approved the investor's account for the transaction. If the Penny Stock Rules are not followed by a broker-dealer, the investor has no obligation to purchase the shares. Accordingly, delisting from The Nasdaq Stock Market-SM- and the application of the foregoing Penny Stock Rules may make it more difficult for broker-dealers to sell the Company's securities. In addition, purchasers of the Company's securities may have difficulty in selling such securities in the future in secondary trading markets and the price of such securities may be reduced.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
27.1	Financial Data Schedules
99.1	Cautionary Statement

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 1998

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 13, 1998

By /s/ Paul J. Wendorff

Paul J. Wendorff
Its Chief Executive Officer

Dated: November 13, 1998

By /s/ Wesley W. Winnekins

Wesley W. Winnekins
Its Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Page No.
27.1	Financial Data Schedules.	
99.1	Cautionary Statement.	13

3-MOS
DEC-31-1998
SEP-30-1998
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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:

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 multimedia and web-based education and training products and services by businesses, and many of the Company's potential customers do not own or have access to the necessary equipment. The Company's future success will depend upon, among other factors, the extent to which companies acquire equipment compatible with the Company's products and services, and adopt and use multimedia and web-based 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, as well as sell its custom development services, to large corporate customers. In the event that adoption and use of equipment compatible with the Company's products and services 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 development services will be acceptable to the market or that the Company will be able to sell multiple copies of its 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 maintain 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 customized or tailored versions of its products. There can be no assurance that the Company will be successful in developing and maintaining such demand or in developing and selling customized or tailored versions of its products.

DEPENDENCE ON EVOLVING INDUSTRY STANDARDS. The Company's off-the-shelf 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 or the lack of public acceptance of such standards could 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 debt and 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 market for resources that prepare companies for compliance to international management standards, such as ISO 9000, QS-9000 and ISO 14000, is highly fragmented. No single company has a dominant market share, and the Company generally competes with a variety of competitors, depending on factors such as the size of the customer, specific business requirements, geographic location and the level of investment anticipated by the customer.

The international standards market has traditionally been served by consultants, instructor-led training and companies that market books, manuals, tapes and similar technology solutions. Companies providing consulting services, who may also provide training services, on ISO 9000, QS-9000 and ISO 14000, such as Andersen Consulting, Ernst & Young and Grant Thornton, enjoy a high level of customer loyalty with respect to the implementation of enterprise-wide business practices. Companies providing technology solutions similar to the Company's product offerings include Powerway, Inc. and SystemCorp. The Company can offer no assurance that it will be ultimately successful in competing with such companies.

With respect to custom multimedia development services, the technology training industry is highly competitive, and the Company expects the intensity of competition to increase. The Company competes with numerous privately-held companies that provide custom multimedia development services, many of which have stronger client relationships, a better established market presence and a greater capacity to provide custom development services than the Company. The Company can offer no assurance that it will be ultimately successful in competing with such companies.

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 and services. 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 written employment or noncompetition agreements with any of its management or other personnel.

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 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 and web-based 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.