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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: June 30, 1998

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-21898

INTERACTIVE INC.

(Exact name of small business issuer as specified in its charter)  
South Dakota

46-

0408024

(state of incorporation or organization) (IRS Employer ID No)  
204 N. Main, Humboldt, SD 57035

(Address of principal executive offices)  
(605) 363-5117

Issuer's telephone number

N/A

(Former name, former address and former fiscal year, if changed since last  
report)

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act 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 . . . No .X. .

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution  
of securities under a plan confirmed by a court. Yes . . . No .X. .

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of  
common equity, as of the latest practicable date: 3,265,976 shares at June  
30, 1998

Transitional Small Business Disclosure Format (Check one): Yes No X

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INTERACTIVE INC.  
 BALANCE SHEETS  
 June 30, 1998  
 (Unaudited)

ASSETS		9/30/97
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,278	\$ 1,165
Accounts receivable	4,089	10,418
Inventories	23,939	21,713
Prepaid expenses and other	800	800
Total current assets	<u>\$ 31,106</u>	<u>\$ 34,096</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Land	\$ 1,962	\$ 1,962
Building and improvements	84,962	84,962
Computer and office equipment	54,246	54,246
	<u>\$ 141,170</u>	<u>\$ 141,170</u>
Less accumulated depreciation	88,282	77,032
	<u>\$ 52,888</u>	<u>\$ 64,138</u>
<b>OTHER ASSETS, at cost</b>		
Cost	\$ 253,971	\$ 253,971
Less accumulated amortization	247,010	244,526
	<u>\$ 6,961</u>	<u>\$ 9,445</u>
	<u>\$ 90,955</u>	<u>\$ 107,679</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES			
Notes payable, bank	\$	0	\$ 213,500
Notes payable, related parties		758,500	545,000
Current maturities of long-term debt		265,936	265,436
Accounts payable, trade		1,131,293	1,119,092
Accounts payable, trade, Torrey Pines Research, Inc.		296,297	296,297
Accrued expenses		196,151	244,526
Total current liabilities	\$	<u>2,648,177</u>	<u>\$ 2,683,851</u>
LONG-TERM DEBT			
Less current maturities	\$	311,435	\$ 265,436
		(265,936)	(265,436)
	\$	<u>45,499</u>	<u>\$ 0</u>
STOCKHOLDERS' EQUITY			
Series A preferred stock, par value \$.001 per share; authorized 5,000,000 shares; issued 113,901 shares	\$	114	\$ 114
Common stock, par value \$.001 per share; authorized 10,000,000 shares: issued 3,265,976		3,266	3,191
Additional paid-in capital		6,834,594	6,834,594
Accumulated deficit		(9,440,695)	(9,414,071)
	\$	<u>(2,602,721)</u>	<u>\$ (2,576,172)</u>
	\$	<u>90,955</u>	<u>\$ 107,679</u>

See Notes to Financial Statements.

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INTERACTIVE INC.

STATEMENTS OF OPERATIONS

Nine and Three Months Ended June 30, 1998 and 1997  
(Unaudited)

	Nine months ended June 30,		Three months ended June 30,	
	1998	1997	1998	1997
Net Sales	\$ 49,523	\$ 61,608	\$ 9,746	\$ 19,167
Cost of goods sold, exclusive of depreciation and amortization shown separately below	27,266	28,894	7,675	9,271
Gross profit	<u>\$ 22,257</u>	<u>\$ 32,714</u>	<u>\$ 2,071</u>	<u>\$ 9,896</u>
Operating expenses				
Sales and Marketing	\$ 24,963	\$ 50,983	\$ (2,847)	\$ 10,618
Support and production	(4,013)	3,850	(5,577)	1,009
General and administrative	9,537	9,176	3,653	1,803
Depreciation and amortization	13,734	77,833	4,578	25,924
	<u>\$ 44,221</u>	<u>\$ 141,842</u>	<u>\$ (193)</u>	<u>\$ 39,354</u>
Operating Loss	<u>\$ (21,964)</u>	<u>\$ (109,128)</u>	<u>\$ 2,264</u>	<u>\$ (29,458)</u>
Nonoperating income (expense):				
Rental income	618	5,250	150	2,525
Interest expense	(30,867)	(30,510)	(10,122)	(10,460)
Miscellaneous income	25,588	629	7,354	0
Nonoperating income (expense):	<u>\$ (4,661)</u>	<u>\$ (24,631)</u>	<u>\$ (2,618)</u>	<u>\$ (7,935)</u>

Net loss	\$ (26,625)	\$ (133,759)	\$ (354)	\$ (37,393)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Loss per common and common equivalent share	\$ (0.01)	\$ (0.04)	\$ (0.00)	\$ (0.01)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

See Notes to Financial Statements

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INTERACTIVE INC.

STATEMENT OF STOCKHOLDERS' EQUITY  
Nine months ended June 30, 1998  
(Unaudited)

	Capital Stock Issued		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)
	Preferred	Common		
Balance, September 30, 1997	\$ 114	\$ 3,191	\$ 6,834,594	\$ (9,414,070)
Issuance of common stock for services		75		
Conversion of preferred stock to common stock				
Net loss				(26,625)
Balance, June 30, 1998	\$ 114	\$ 3,266	\$ 6,834,594	\$ (9,440,695)

See Notes to Financial Statements.

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INTERACTIVE INC.

STATEMENTS OF CASH FLOWS  
Nine Months Ended June 30, 1998 and 1997  
(Unaudited)

	Nine months ended June 30,	
	1998	1997
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	\$ (26,624)	\$ (134,024)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	13,734	77,833
Issuance of common stock for services	75	5,576
Change in assets and liabilities;		
Decrease in receivables	6,329	12,470
Decrease (increase) in inventories	(2,226)	16,698
Decrease in prepaid expenses and other	0	731
Increase in accounts payable, trade	12,200	4,551
(Decrease) in accounts payable Torrey Pines Research	0	(4,000)
Increase (decrease) in accrued expenses	(48,375)	24,830
Net cash (used in) operating activities	\$ (44,887)	\$ 4,665
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term debt	\$ 46,000	\$ 0

Principal payments on long term debt	0	(4,431)
Net cash provided by financing activities	<u>\$ 46,000</u>	<u>\$ (4,431)</u>
Net increase in cash and cash equivalents	\$ 1,113	\$ 234
CASH AND CASH EQUIVALENTS		
Beginning	<u>\$ 1,165</u>	<u>\$ 1,034</u>
Ending	<u>\$ 2,278</u>	<u>\$ 1,268</u>

See Notes to Financial Statements.

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INTERACTIVE INC.

NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Interim Financial Statements

The financial information presented has been prepared from the books and records without audit but, in the opinion of management, includes all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial information for the periods presented. The results of operations for the nine and three months ended June 30, 1998, are not necessarily indicative of the results expected for the entire year.

Note 2. Income Taxes

The Company adopted the Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes on October 1, 1993. Statement 109 requires that deferred taxes be recorded on a liability method and adjusted when new tax rates are enacted. There was no effect to the Company's financial statements as a result of adopting Statement 109.

At June 30, 1998, the Company had a net operating loss carryforward for tax purposes of approximately \$8,127,000. For financial reporting purposes, the operating loss carryforward is approximately \$9,441,000, which represents the amount of future tax deductions for which a tax benefit has not been recognized in the financial statements. No deferred asset has been recorded for the benefit of the net operating loss or any other temporary differences as the related valuation allowance would be equal to the net deferred tax asset.

Note 3. Loss Per Common and Common Equivalent Share

The loss per common and common equivalent share has been computed using the weighted average of the number of shares outstanding for the nine and three months ended June, 1998 and 1997. The weighted number of common and common equivalent shares outstanding for the nine and three months ended June 30, 1998 and 1997 are 3,193,123, 3,130,059, 3,230,086, and 3,123,109, respectively. The loss per common and common equivalent share assuming full dilution is the same as the loss per common and common equivalent share since the convertible preferred stock, convertible notes and common stock options and warrants have not been included in the computation as their inclusion would be anti-dilutive.

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Note 4. Stock Options and Warrants

The Company has a plan to grant incentive stock options to employees and non-statutory stock options to other individuals who provide services to the Company. All options granted are at the discretion of the Board of Directors and vest with the option holder over a 36 or 48 month period of continuous service to the Company. The option price is to be established by the Board of Directors. The Company has 133,333 shares of common stock reserved for

options as of June 30, 1998. The following details the stock options issued and outstanding as of June 30, 1998.

Expiration Ended	Options	Options	Option	
	Issued	Exercisable	Price	Year
Incentive 2001	9,334	9,334	\$.25	
Incentive 2004	3,000	3,000	.25	
Incentive 2005	4,500	2,538	.32	
Non-statutory 2003	3,000	3,000	.25	
Non-statutory 2004	18,000	18,000	.25	
Non-statutory 2005	36,000	33,000	.25	
Non-statutory 2006	10,000	5,616	.32	
	<u>93,334</u>	<u>65,274</u>		

The Company has issued common stock warrants to purchase shares of common stock at a set price. The following details the common stock warrants issued and outstanding as of June 30, 1998.

Expiration	Warrants	Warrant	Date
	Issued	Price	
Warrants for refinancing note	1,000,000	.50	6-30-99

#### Note 5. Bank Line of Credit

The Company had a line-of-credit aggregating \$213,500 from a bank. The line was at a variable interest rate of .75% over the banks commercial base rate (10.43% at March 31, 1998), with interest on the outstanding balance due monthly. The Company was unable to pay the principle or the monthly interest payments, but accrued the interest. The line was secured by substantially all of the assets of the Company. In May of 1998 the note was purchased from the bank by Robert Stahl, a related party.

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#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

##### Liquidity and Capital Resources

The Company is delinquent on its interest payments on its former bank line of credit, most of its subordinated long term notes, its leases and most of its trade accounts payable. The Company has several judgments against it and several more threatened as a result of its inability to pay its obligations to its unsecured trade creditors. The judgments are all from unsecured creditors which the Company is no longer using for ongoing operations and the Company does not intend to pay these unsecured debts until its obligations to its secured creditors are satisfied. The exposure to judgments could include all of the current liabilities, which total \$2,648,177 at June 30, 1998. The company currently feels that the best possibility it has available to repay its secured and unsecured creditors and to return value to its stockholders is to continue to operate the Company and to work out long term payment plans if it is able to do so in the future. While the Company does not expect that it will be forced into bankruptcy by its secured or unsecured creditors, there can be no assurance that this will not happen because of the Company's inability to meet its obligations to its creditors. The Company believes that a liquidation of its assets would only satisfy a small portion of the Company's obligations to its secured creditors and provide nothing for the Company's unsecured creditors or its stockholders.

The Company's inventory of SoundXchange hardware, which, as of June 30, 1998, accounted for approximately 76.9% of the Company's current assets, is liquid only to the extent of the Company's sales of such product. The Company has made minor engineering changes in the product in order to be able to utilize the inventory for newly developing markets and the Company hopes to continue to be able to do so in the future. Although, there can be no guarantee that this will increase sales of the SoundXchange hardware, the Company believes that an increase in sales will occur allowing the Company to reduce its inventory of the SoundXchange hardware at a profit.

The Company was also unable to pay its auditor in order to have audited financial statements for years ended September 30, 1994, 1995, 1996 and 1997. The absence of audited financial statements may jeopardize the ability of the Company to continue as a reporting Company and may jeopardize the ability for the Company's stock to continue to trade on the OTC Bulletin Board.

#### Results of Operations

**Revenue.** Net sales for the nine months ended June 30, 1998 and 1997 were \$49,500 and \$61,600, respectively. Net sales for the first three quarters of 1998 were down primarily due to a reduction in sales and marketing and a reduction in advertising expenditures.

**Gross Profit.** The gross margin for the nine months ended June 30, 1998 was approximately 45% down from a gross margin of 53% for the nine months ended June 30, 1997. The decrease from the previous year is due primarily to a decrease in sales of the higher profit margin SoundXchange Model K and Model T and an increase in sales of the SoundXchange Model VC with its relatively lower profit margin.

**Sales and marketing expenses.** Sales and marketing expenses for the nine months ended June 30, 1998 and 1997 were \$25,000 and \$51,000, respectively. In the first three quarters of fiscal 1998, the Company did not pursue advertising efforts similar in magnitude to those in 1997. The Company also reduced the number of sales and marketing employees from fiscal 1997 to fiscal 1998.

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**Research and development.** There were no research and development expenses for the nine months ended June 30, 1998. The Company does not have any employees currently engaged in research, product development and engineering, but the Company currently has access, through a temporary consulting arrangement with Torrey Pines Research (TPR), the Company's former key research and development employees who are now employees of TPR. Although TPR is a stockholder of InterActive, and TPR has performed as a strategic partner in past development efforts of InterActive, there can be no assurance that TPR will continue to provide InterActive consulting service because of InterActive's current inability to pay for those consulting services. There were no amounts capitalized in connection with software development for the nine months ended June 30, 1998 and 1997. Software development amortization expense for the nine months ended June 30, 1998 and 1997 were \$0 and \$64,100, respectively.

**General and administrative.** General and administrative expenses for the nine months ended June 30, 1998 and 1997 were \$9,500 and \$9,200, respectively.

**Depreciation and Amortization.** Depreciation and amortization expenses for the nine months ended June 30, 1998 and 1997 were \$13,700 and \$77,800, respectively. The decrease in depreciation and amortization expense was due primarily to a one time write down of assets at fiscal year end 1997.

**Nonoperating Income (Expense).** Nonoperating income (expense) for the nine months ended June 30, 1998 and 1997 were (\$4,700) and (\$24,600) respectively. The decrease in nonoperating expense was a result of income shown from recapture of inventory which was written down at September 30, 1997.

**Net Loss.** The Company suffered a net loss for the nine months ended June 30, 1998 of \$26,600 or \$0.01 per share on 3,193,123 weighted average shares outstanding compared to a net loss for the nine months ended June 30, 1997 of \$133,800 or \$0.04 per share on 3,130,059 weighted average shares outstanding. The decrease in net loss was primarily a result of an agreement with the South Dakota Department of Revenue which reduced the use tax liability to the state. This liability was realized during the first nine months of fiscal 1997.

Management believes that the largest challenges that the Company will continue to confront during 199 are to obtain adequate financing and in achieving its

goal of positive cash flow and profitability. While the Company is optimistic about the possibility of its overcoming these challenges and achieving its goals, there can be no assurance that it will be able to achieve any or all of its objectives.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The Company has several judgments against it and several more threatened as a result of its inability to pay its obligations to its unsecured trade creditors. The judgments are all from unsecured creditors which the Company is no longer using for on going operations and the Company does not intend to pay these unsecured debts until its obligations to its secured creditors are satisfied.

The Company currently feels that the best possibility it has available to repay its secured and unsecured creditors and to return value to its stockholders is to continue to operate the Company and to work out long term payment plans if it is able to do so in the future. While the Company does not expect that it will be forced into bankruptcy by its secured or unsecured creditors, there can be no assurance that this will not happen because of the Company's inability to meet its obligations to its creditors. The Company believe that a liquidation of its assets would only satisfy a small portion of the company's obligations to its secured creditors and provide nothing for the Company's unsecured creditors or its stockholders.

Item 2. Changes in Securities.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

None

(b) Reports on Form 8-K.

None

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 7, 1998

INTERACTIVE INC.

Stahl

/s/ Robert

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Robert Stahl  
President

L. Kappenman

/s/ Gerard

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Gerard L. Kappenman  
Secretary



