

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: March 31, 2001

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 GROUP, INC.

(Exact name of small business issuer as specified in its charter)
Delaware 46-0408024

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

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

Issuer's telephone number
INTERACTIVE INC.

(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 X No

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: 5,276,039 shares at May 11, 2001

Transitional Small Business Disclosure Format (Check one): Yes No X
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1

INTERACTIVE GROUP, INC.
TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

	Page(s) -----
Balance Sheets - March 31, 2001 and September 30, 2000	3
Statements of Operations - Six and Three Months Ended March 31, 2001 and 2000	4
Statement of Stockholders' Deficit - Six Months Ended March 31, 2001	5
Statements of Cash Flows - Six Months Ended March 31, 2001 and 2000	6
Notes to Financial Statements	7-9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10-11

PART II. OTHER INFORMATION

Item 2. Changes in Securities	11-12
Item 3. Defaults Upon Senior Securities	12

2

INTERACTIVE GROUP, INC.
BALANCE SHEETS

ASSETS	3/31/2001 Unaudited	9/30/2000
	-----	-----
Current Assets		
Cash	\$ 242	\$ 1,952
Accounts receivable	0	1,280
Inventories	12,036	12,222
Prepaid expenses and other assets	1,057	628
Land, building and improvements held for sale	44,952	0
	-----	-----
Total current assets	58,287	16,082
	-----	-----
Property and Equipment, at cost		
Land, building and improvements, less accumulated depreciation of \$58,744 at September 30, 2000	0	48,472
Equipment, less accumulated depreciation of \$11,019 and \$10,424 at March 31, 2001 and September 30, 2000	0	595
	-----	-----
	0	49,067
	-----	-----
Total assets	\$ 58,287	\$ 65,149
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Notes payable, related party	\$ 500,000	\$ 500,000
Current maturities of long-term debt	26,000	24,000
Accounts payable	30,325	63,076
Accounts payable, related parties	138,146	97,605
Accrued expenses	63,037	57,823
Accrued expenses, related parties	475,659	412,798
	-----	-----
Total current liabilities	1,233,167	1,155,302
	-----	-----
Long-term Debt, less current maturities	36,000	39,000
	-----	-----
Stockholders' Deficit		
Series A preferred stock, 2,000,000 and 113,901 shares issued at March 31, 2001 and September 30, 2000, liquidation preference of outstanding shares at March 31, 2001 of \$300,000	2,000	114
Series B preferred stock, 2,000,000 shares issued at September 30, 2000	0	2,000
Common stock, 5,276,039 and 5,062,138 shares issued at March 31, 2001 and September 30, 2000	5,276	5,062
Additional paid-in capital	8,054,967	8,044,567
Accumulated deficit	(9,273,123)	(9,180,896)
	-----	-----
Total stockholders' deficit	(1,210,880)	(1,129,153)
	-----	-----
Total liabilities and stockholders' deficit	\$ 58,287	\$ 65,149
	=====	=====

See Notes to Financial Statements.

INTERACTIVE GROUP, INC.
STATEMENTS OF OPERATIONS
Six and Three Months Ended March 31, 2001 and 2000
(Unaudited)

	Six months ended March 31, 2001		Three months ended March 31, 2001	
	2001	2000	2001	2000
Net sales	\$ 5,295	\$ 11,615	\$ 95	\$ 6,600
Cost of goods sold	186	510	6	246
Gross profit	5,109	11,105	89	6,354
Operating expenses				
Selling	13,237	25,914	8,299	12,200
General and administrative	52,756	43,603	17,319	19,651
	65,993	69,517	25,618	31,851
Operating (loss)	(60,884)	(58,412)	(25,529)	(25,497)
Nonoperating income (expense):				
Write off of accounts payable	34,658	0	7,411	0
Interest expense	(67,541)	(58,013)	(34,343)	(29,229)
Other income, net	1,540	1,620	1,072	634
	(31,343)	(56,393)	(25,860)	(28,595)
(Loss) before income taxes	(92,227)	(114,805)	(51,389)	(54,092)
Income tax expense (benefit)	0	0	0	0
Net (loss)	\$(92,227)	\$(114,805)	\$(51,389)	\$(54,092)
Loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)

See Notes to Financial Statements.

INTERACTIVE GROUP, INC.
STATEMENT OF STOCKHOLDERS' DEFICIT
Six months ended March 31, 2001
(Unaudited)

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, September 30, 2000	\$ 114	\$ 2,000	\$ 5,062	\$ 8,044,567	\$ (9,180,896)	\$(1,129,153)
Issuance of common stock for satisfaction of accounts payable	0	0	100	10,400	0	10,500
Conversion of Series A Preferred stock to common stock	(114)	0	114	0	0	0
Conversion of Series B Preferred stock to Series A Preferred stock	2,000	(2,000)	0	0	0	0
Net loss	0	0	0	0	(92,227)	(92,227)
Balance, March 31, 2001	<u>\$ 2,000</u>	<u>\$ 0</u>	<u>\$ 5,276</u>	<u>\$ 8,054,967</u>	<u>\$ (9,273,123)</u>	<u>\$(1,210,880)</u>

See Notes to Financial Statements.

INTERACTIVE GROUP, INC.
STATEMENTS OF CASH FLOWS
Six Months Ended March 31, 2001 and 2000
(Unaudited)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$(92,227)	\$ (114,805)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation	4,115	4,123
Change in assets and liabilities:		
Decrease in accounts receivable	1,280	9,760
Decrease in inventories	186	489
(Increase) in prepaid expenses and other assets	(429)	(125)
Increase (decrease) in accounts payable	(32,751)	44,082
Increase in accrued expenses	68,075	58,854
Net cash provided by (used in) operating activities	(51,751)	2,378
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	0	(742)
Net cash (used in) investing activities	0	(742)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related party	51,041	0
Principal payments on long-term debt	(1,000)	(1,000)
Net cash provided by (used in) financing activities	50,041	(1,000)
Net increase (decrease) in cash	(1,710)	636
CASH		
Beginning	1,952	124
Ending	\$ 242	\$ 760
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 0	\$ 80
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common stock for satisfaction of accounts payable	\$ 10,500	\$ 4,500

See Notes to Financial Statements.

INTERACTIVE GROUP, 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 six months ended March 31, 2001, are not necessarily indicative of the results expected for the entire year.

NOTE 2. LAND, BUILDING AND IMPROVEMENTS

As of March 31, 2001, land, building and improvements were reclassified to a current asset to be held for sale in accordance with management's plans to sell its building facility. Accordingly, the accounting policy for such property has been changed from being carried at cost, less accumulated depreciation, to being carried at the lower of its depreciated cost or fair value less estimated cost to sell, and the recording of depreciation has ceased as of March 31, 2001.

NOTE 3. INCOME TAXES

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

At March 31, 2001, the Company has for tax reporting purposes approximately \$15,000 in unused research and development credits and a net operating loss carryforward of approximately \$7,669,000 available to be offset against future federal taxable income or income tax liabilities. These carryforwards expire in varying amounts in years ending September 30, 2008 through 2021. The Company has recorded a full valuation allowance on the deferred tax assets due to lack of assurance that the tax benefits can be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income.

NOTE 4. 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 six and three months ended March 31, 2001 and 2000. Securities that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share for the six month and three month periods ended March 31, 2001, because to do so would have been antidilutive are as follows: 20,000,000 shares of common stock issuable upon the conversion of Series A preferred stock, 83,834 shares of common stock issuable upon the exercise of

options, and 1,000,000 shares of common stock issuable upon the exercise of stock warrants. Securities that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share for the six month and three month periods ended March 31, 2000, because to do so would have been antidilutive are as follows: 20,000,000 shares of common stock issuable upon the conversion of Series B preferred stock, 221,620 shares of common stock issuable upon the conversion of Series A preferred stock, 83,834 shares of common stock issuable upon the exercise of options, and 1,000,000 shares of common stock issuable upon the exercise of stock warrants. All references to (loss) per share in the financial statements are to basic (loss) per share. Diluted (loss) per share is the same as basic (loss) per share for all per share amounts presented. The weighted number of common and common equivalent shares outstanding for the six and three months ended March 31, 2001 are 5,198,407 and 5,253,259 respectively and for the six and three months ended March 31, 2000 are 4,980,345 and 5,048,551 respectively.

NOTE 5. NOTES PAYABLE

At March 31, 2001 and September 30, 2000, the Company had a \$500,000 note payable to Torrey Pines Research, Inc. (TPR), a related party, that is due on demand. The note was originally to a bank and was assumed by TPR on behalf of the Company as a result of its guarantee of the loan. The note to TPR bears interest at the rate of 13.6% and is secured by substantially all the assets of the Company. In connection with the assumption of the loan, TPR received 1,000,000 restricted common stock warrants that each represent the right to purchase one share of common stock at \$.50. The warrants expire one year following satisfaction of the note.

NOTE 6. CAPITAL STOCK AND REINCORPORATION

On January 19, 2001, the Company's shareholders approved a proposal to change the Company's state of incorporation from South Dakota to Delaware (the "Reincorporation"). The Reincorporation was consummated by merging the Company into a wholly-owned Delaware subsidiary, InterActive Group, Inc. which was newly formed for this purpose. As a consequence of the Reincorporation, among other things, all of the previously outstanding shares of the Company's common stock (5,162,138 total shares) were automatically converted on a one-for-one basis into shares of the common stock of InterActive Group, Inc., and each share of the Company's series A preferred stock (113,901 total shares) was converted automatically into one share of the common stock of InterActive Group, Inc. In addition, all outstanding options and warrants to purchase shares of the Company's common stock (83,834 shares issuable upon the exercise of options and 1,000,000 shares issuable upon the exercise of stock warrants) were converted into options or warrants, as the case may be, to purchase the same number of shares of the common stock of InterActive Group, Inc., at the same price per share and on the same terms and conditions. The Company's outstanding series B preferred stock was also converted automatically as a consequence of the Reincorporation into an equal number of shares of series A preferred stock (2,000,000 total shares) of InterActive Group, Inc. having the same rights, preferences, privileges and restrictions as the Company's outstanding series B preferred stock formerly had.

Capital stock consists of the following at March 31, 2001:

Series A convertible preferred stock, voting, \$.001 par value, authorized 2,000,000 shares; issued and outstanding 2,000,000 shares	\$2,000
Common stock, voting, \$.001 par value, authorized 50,000,000 shares; issued and outstanding 5,276,039 shares	5,276

Capital stock consisted of the following at September 30, 2000:

Series A preferred stock, voting, \$.001 par value; authorized 5,000,000 shares; issued and outstanding 113,901 shares	\$ 114
Series B preferred stock, voting, \$.001 par value; authorized 2,000,000 shares; issued and outstanding 2,000,000 shares	2,000
Common stock, voting, \$.001 par value, authorized 10,000,000 shares ; issued and outstanding 5,062,138 shares	5,062

The authorized capital stock of InterActive Group, Inc. consists of 50,000,000 shares of common stock, \$.001 par value, and 10,000,000 shares of preferred Stock, \$.001 par value. The Board of Directors of InterActive Group, Inc. is authorized, subject to the limitations prescribed by law and the provisions of its certificate of incorporation, to provide for the issuance of preferred stock in series and to establish the number of shares to be included in each series, and to fix the designation, powers, preferences and rights of the shares of each series and the qualifications, limitations and restrictions thereof.

In addition, the Board of Directors of InterActive Group, Inc. has authorized the creation of one series of preferred stock to be designated as "Series A Convertible Preferred Stock." As a part of the Reincorporation, 2,000,000 shares of Series A convertible preferred stock were outstanding as of March 31, 2001 and are convertible into 20,000,000 shares of common stock, with such conversion rate subject to adjustment from time to time in accordance with the "Certificate of Determination of Series A Convertible Preferred Stock of InterActive Group, Inc." In addition, 600,000 shares of Series B Preferred Stock of InterActive Group, Inc. have been reserved for future issuance to TPR in connection with an agreement with TPR (agreement continued in full force and effect from InterActive Inc.) in which TPR would exchange \$500,000 of debt plus accrued interest owing from the Company for 600,000 shares of preferred stock if certain conditions in the agreement are satisfied.

In addition to stock options previously granted by the Company, the Board of Directors of InterActive Group, Inc. has adopted a 2000 Stock Option Plan pursuant to which options to purchase up to 3,000,000 shares of the common stock of InterActive Group, Inc. may be granted. No options had been granted pursuant to this plan as of March 31, 2001.

NOTE 7. MANAGEMENT'S PLANS

The Company has sustained operating losses for several years and its current liabilities exceeded current assets at March 31, 2001. Continued operations of the Company are dependent upon the Company's ability to meet its existing debt requirements on a continuing basis. Management's plans in this regard are to increase its revenues by providing Internet consulting services with the assistance of TPR and generating cash through private investments or loans. There can be no assurance that TPR will provide such assistance or any other support to the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Revenue. Net sales were \$95 and \$5,295 for the three and six months ended March 31, 2001 compared to \$6,600 and \$11,615 for the three and six month period ended March 31, 2000. The Company's decrease in sales is attributable mainly to less demand for its SoundXchange Model K.

Gross Profit. Gross profit decreased 99% to \$89 for the three months ended March 31, 2001 from \$6,354 for the three months ended March 31, 2000. Gross profit decreased 54% to \$5,109 from \$11,105 for the six months ended March 31, 2000.

Selling expenses. Selling expenses decreased to \$8,299 for the three months ended March 31, 2001 from \$12,200 for the three months ended March 31, 2000. Selling expenses decreased to \$13,237 for the six months ended March 31, 2001 from \$25,914 for the six months ended March 31, 2000. The decrease in selling expenses was primarily due to decreased emphasis on sales of the Company's SoundXchange products during the period.

General and administrative. General and administrative expenses were \$17,319 and \$52,756 for the three and six months ended March 31, 2001 and \$19,651 and \$43,603 for the three and six months ended March 31, 2000. The increase from the previous year is primarily due to expenses associated with the Company's Reincorporation in Delaware.

Depreciation. Depreciation expense for the three months ended March 31, 2001 and 2000 was \$1,774 and \$2,066, respectively. Depreciation expense for the six months ended March 31, 2001 and 2000 was \$4,115 and \$4,123, respectively.

Nonoperating (expense). Nonoperating (expense) for the three months ended March 31, 2001 and March 31, 2000 was (\$25,860) and (\$28,595), respectively. Nonoperating (expense) for the six months ended March 31, 2001 and 2000 was (\$31,343) and (\$56,393), respectively. The decrease in nonoperating expense is mainly due to a write off of certain accounts payable.

Net Loss. Net loss for the three months ended March 31, 2001 was \$51,389 or (\$0.01) per share compared to a net loss for the three months ended March 31, 2000 of \$54,092 or (\$0.01) per share. Net loss for the six months ended March 31, 2001 was \$92,227 or (\$0.02) per share compared to a net loss for the six months ended March 31, 2000 of \$114,805 or (\$0.02) per share. The decrease in losses was due largely to a write off of certain accounts payable which is included in non-operating income.

LIQUIDITY AND CAPITAL RESOURCES

The Company has sustained operating losses for several years and its current liabilities exceeded current assets at March 31, 2001. Continued operations of the Company are dependent upon the Company's ability to meet its existing debt requirements on a continuing basis. Management's plans in this regard are to increase its revenues by providing Internet consulting services with the assistance of TPR and generating cash through private investments or loans. There can be no assurance that TPR will provide such assistance or any other support to the Company.

Substantially all of the Company's accounts payable are several years past due. The Company does not anticipate making any payments on these obligations in the near term. The Company has several judgments against it and several more were threatened as a result of its inability to pay its obligations to its unsecured creditors.

The Company is committed to a plan to sell its building facility if a reasonable offer were to be made by an outside party. To date, no such offer has been tendered.

Management believes that the largest challenges that the Company will confront are in its attempt to achieve increases in revenues and profitability in the future. 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.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

On January 19, 2001, the Company's shareholders approved a proposal to change the Company's state of incorporation from South Dakota to Delaware (the "Reincorporation"). The Reincorporation was consummated by merging the Company into a wholly-owned Delaware subsidiary, InterActive Group, Inc. which was newly formed for this purpose. As a consequence of the Reincorporation, among other things, all of the previously outstanding shares of the Company's common stock (5,162,138 total shares) were automatically converted on a one-for-one basis into shares of the common stock of InterActive Group, Inc., and each share of the Company's series A preferred stock (113,901 total shares) was converted automatically into one share of the common stock of InterActive Group, Inc. In addition, all outstanding options and warrants to purchase shares of the Company's common stock (83,834 shares issuable upon the exercise of options and 1,000,000 shares issuable upon the exercise of stock warrants) were converted into options or warrants, as the case may be, to purchase the same number of shares of the common stock of InterActive Group, Inc., at the same price per share and on the same terms and conditions. The Company's outstanding series B preferred stock was also converted automatically as a consequence of the Reincorporation into an equal number of shares of series A preferred stock (2,000,000 total shares) of InterActive Group, Inc. having the same rights, preferences, privileges and restrictions as the Company's outstanding series B preferred stock formerly had.

Capital stock consists of the following at March 31, 2001:

Series A convertible preferred stock, voting, \$.001 par value, authorized 2,000,000 shares; issued and outstanding 2,000,000 shares	\$2,000
Common stock, voting, \$.001 par value, authorized 50,000,000 shares; issued and outstanding 5,276,039 shares	5,276

Capital stock consisted of the following at September 30, 2000:

Series A preferred stock, voting, \$.001 par value; authorized 5,000,000 shares; issued and outstanding 113,901 shares	\$ 114
Series B preferred stock, voting, \$.001 par value; authorized 2,000,000 shares; issued and outstanding 2,000,000 shares	2,000
Common stock, voting, \$.001 par value, authorized 10,000,000 shares; issued and outstanding 5,062,138 shares	5,062

The authorized capital stock of InterActive Group, Inc. consists of 50,000,000 shares of common stock, \$.001 par value, and 10,000,000 shares of preferred stock, \$.001 par value. The Board of Directors of InterActive Group, Inc. is authorized, subject to the limitations prescribed by law and the provisions of its certificate of incorporation, to provide for the issuance of preferred stock in series and to establish the number of shares to be included in each series, and to fix the designation, powers, preferences and rights of the shares of each series and the qualifications, limitations and restrictions thereof.

In addition, the Board of Directors of InterActive Group, Inc. has authorized the creation of one series of preferred stock to be designated as "Series A Convertible Preferred Stock." As a part of the Reincorporation, 2,000,000 shares of Series A convertible preferred stock were outstanding as of March 31, 2001 and are convertible into 20,000,000 shares of common stock, with such conversion rate subject to adjustment from time to time in accordance with the "Certificate of Determination of Series A Convertible Preferred Stock of InterActive Group, Inc." In addition, 600,000 shares of Series B Preferred Stock of InterActive Group, Inc. have been reserved for future issuance to TPR in connection with an agreement with TPR (agreement continued in full force and effect from InterActive Inc.) in which TPR would exchange \$500,000 of debt plus accrued interest owing from the Company for 600,000 shares of preferred stock if certain conditions in the agreement are satisfied.

In addition to stock options previously granted by the Company, the Board of Directors of InterActive Group, Inc. has adopted a 2000 Stock Option Plan pursuant to which options to purchase up to 3,000,000 shares of the common stock of InterActive Group, Inc. may be granted. No options had been granted pursuant to this plan as of March 31, 2001.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has at March 31, 2001 a note in the amount of \$20,000, which was due to an individual on November 30, 1995 and is collateralized by substantially all assets of the Company. The note is subordinated to certain other senior secured notes. The note bears interest at the rate of 15% and has accrued interest of \$35,367 at March 31, 2001.

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: May 11, 2001

INTERACTIVE INC.

/s/ Robert Stahl

Robert Stahl
President and Secretary

