

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2020

OR

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 001-33169



Creative Realities, Inc.

(Exact name of registrant as specified in its charter)

Minnesota

State or other jurisdiction of
incorporation or organization

41-1967918

I.R.S. Employer
Identification No.

13100 Magisterial Drive, Suite 100, Louisville KY

Address of principal executive offices

40223

Zip Code

(502) 791-8800

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	CREX	The Nasdaq Stock Market LLC
Warrants to purchase Common Stock	CREXW	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$24,538,011 as of the last business day of the registrant's most recently completed second fiscal quarter.

As of March 7, 2021, the registrant had 11,743,667 shares of common stock outstanding.

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PART I

ITEM 1 BUSINESS

(All currency is rounded to the nearest thousand, except share and per share amounts.)

Our Company

Creative Realities, Inc. is a Minnesota corporation that provides innovative digital marketing technology solutions to a broad range of companies, individual brands, enterprises, and organizations throughout the United States and in certain international markets. We have expertise in a broad range of existing and emerging digital marketing technologies across approximately 15 vertical markets, as well as the related media management and distribution software platforms and networks, device and content management, product management, customized software service layers, systems, experiences, workflows, and integrated solutions. Our technology and solutions include: digital merchandising systems and omni-channel customer engagement systems; content creation, production and scheduling programs and systems; a comprehensive series of recurring maintenance, support, and field service offerings; interactive digital shopping assistants, advisors and kiosks; and, other interactive marketing technologies such as mobile, social media, point-of-sale transactions, beaconing and web-based media that enable our customers to transform how they engage with consumers.

Our main operations are conducted directly through Creative Realities, Inc. and our wholly owned subsidiary Creative Realities Canada, Inc., a Canadian corporation. Our other wholly owned subsidiaries are effectively dormant: Creative Realities, LLC, a Delaware limited liability company, ConeXus World Global, LLC, a Kentucky limited liability company, and Allure Global Solutions, Inc., a Georgia corporation.

We generate revenue by:

- consulting with our customers to determine the technologies and solutions required to achieve their specific goals, strategies, and objectives;
- designing our customers' digital marketing experiences, content, and interfaces;
- engineering the systems architecture delivering the digital marketing experiences we design – both software and hardware – and integrating those systems into a customized, reliable, and effective digital marketing experience;
- managing the efficient, timely and cost-effective deployment of our digital marketing technology solutions for our customers;
- delivering and updating the content of our digital marketing technology solutions using a suite of advanced media, content, and network management software products; and
- maintaining our customers' digital marketing technology solutions by: providing content production and related services; creating additional software-based features and functionality; hosting the solutions; monitoring solution service levels; and responding to and/or managing remote or onsite field service maintenance, troubleshooting and support calls.

These activities generate revenue through bundled-solution sales; consulting services, experience design, content development and production, software development, engineering, implementation, and field services; software subscription license fees; and maintenance and support services related to our software, managed systems and solutions.

We currently market and sell our technology and solutions primarily through our sales and business development personnel, but we also utilize agents, strategic partners, and lead generators who provide us with access to additional sales, business development and licensing opportunities.

Our digital marketing technology solutions have application in a wide variety of industries. The industries in which we sell our solutions are established and include automotive, apparel & accessories, banking, baby/children, beauty, CPG, department stores, digital out-of-home (“DOOH”), electronics, fashion, fitness, foodservice/quick service restaurant (“QSR”), financial services, gaming, luxury, mass merchants, mobile operators, and pharmacy retail; however, the planning, development, implementation and maintenance of technology-enabled experiences involving combinations of digital marketing technologies is relatively new and evolving. Moreover, a number of participants in these industries have only recently started considering or expanding the adoption of these types of technologies, solutions and experiences as part of their overall marketing strategies. As a result, we remain without an established history of profitability.

We believe that the adoption and evolution of digital marketing technology solutions will increase substantially in years to come in the industries in which we currently focus and in others; however, adoption has not yet accelerated to the extent we expected, in part due to delays in capital expenditures from our current and potential customer base as a result of the COVID-19 pandemic. We also believe that adoption of our solutions depends not only upon the services and solutions that we provide but also upon the cost of hardware used to process and display content. While the costs of hardware configurations and software media players have historically decreased and we believe they will continue to do so at an accelerating rate, flat panel displays and players typically constitute a large portion of the expenditure customers make relative to the entire cost of implementing a digital marketing system implementation and can be a barrier to customer deployment. As a result, we believe that the broader adoption of digital marketing technology solutions is likely to increase, although we cannot predict the rate at which such adoption will occur.

Another key component of our business strategy, given the evolving dynamics of the industry in which we operate, is to acquire and integrate other operating companies in the industry in conjunction with pursuing our organic growth objectives. We believe that the selective acquisition and successful integration of certain companies will: accelerate our growth in targeted vertical and operating markets; enable us to cost-effectively aggregate multiple customer bases onto a single business and technology platform; provide us with greater operating scale on a consolidated basis; enable us to leverage a common set of processes and tools, and cost efficiencies company-wide; and ultimately result in higher operating profitability and cash flow from operations. Our management team evaluates acquisition opportunities on an ongoing basis. Our management team and Board of Directors have broad experience with the execution, integration, and financing of acquisitions. We believe that the COVID-19 pandemic has adversely affected our smaller competitors, and as a result, there may exist acquisition opportunities in the future. We also believe that, based on the foregoing, we can successfully serve as a consolidator of multiple business and technology platforms serving similar markets.

In addition to our historical product offerings and solutions, in April 2020, we announced the joint launch of an AI-integrated non-contact temperature inspection kiosk known as the “Thermal Mirror” with our partner, InReality, LLC for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. The Thermal Mirror involves the development, marketing and sale of a new product to new customers involving a joint effort with InReality compared to our historical products and services. The product also uses hardware and technologies that have not been used with our other customers. Throughout 2020, the Company and InReality continued to develop incremental use cases and subsequently launched a suite of Safe Space Solutions products addressing this market, each of which operate consistently with our primary business model in that they represent a sale of hardware and a SaaS-based subscription license services contract.

You may read and copy any materials we file with the SEC at the SEC’s public reference room at 100 F Street NE, Washington, DC 20549. The public may obtain information about the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The website of the SEC is www.sec.gov. Additional information about the Company and its public disclosures is available on our website at www.cri.com.

Corporate Organization

Our principal offices are located at 13100 Magisterial Drive, Ste 100, Louisville, Kentucky 40223, and our telephone number at that office is (502) 791-8800.

We originally incorporated and organized as a Minnesota corporation under the name “Wireless Ronin Technologies, Inc.” in March 2003. Our business initially focused on the provision of expertise in digital media marketing solutions to customers, including digital signage, interactive kiosks, mobile, social media and web-based media solutions. We acquired the assets and business of Broadcast International, Inc., a Utah corporation and public registrant, through a merger transaction that was effective as of August 1, 2014. Then on August 20, 2014, we consummated a merger transaction with Creative Realities, LLC, a privately owned Delaware limited liability company, in which we issued a majority of our issued and outstanding shares of common stock. In that merger transaction, we acquired the interactive marketing technology business of Creative Realities that we currently operate. Shortly after that merger, we changed our corporate name from “Wireless Ronin Technologies, Inc.” to “Creative Realities, Inc.” On October 15, 2015, we acquired the assets and business of ConeXus World Global, LLC, a privately-owned Kentucky limited liability company for which we issued preferred and common stock. In that merger transaction, we acquired the systems integration and marketing technology business of ConeXus World that we currently operate. On May 23, 2016, we dissolved Broadcast International, Inc. On November 20, 2018, we acquired Allure Global Solutions, Inc. (“Allure”), an enterprise software development company (as further described below).

Business Strategy

We believe that our existing business model is highly scalable and can be expanded successfully as we continue to grow organically and integrate our recent merger transactions, acquire and integrate other companies which operate directly in our target markets, strengthen our operational practices and procedures, further streamline our administrative office functions, and continue to capitalize on various marketing programs and activities.

Industry Background

We believe certain digital marketing technology industry trends are creating the opportunity for retailers, brands, venue-operators, enterprises, non-profits and other organizations to create innovative shopping, marketing, and informational experiences for their customers and other stakeholders in various venues worldwide. These trends include: (i) the expectations of technology-savvy consumers; (ii) addressing on-line competitors by improving physical experiences; (iii) accelerating decline in the cost of hardware configurations (primarily flat panel displays) and software media players; (iv) the continued evolution of mobile, social, software and hardware technologies, applications and tools; (v) increasing sophistication of social networking platforms; (vi) increasingly complex customer requirements related to their specific digital marketing technology and solution objectives; and (vii) customers challenging service providers with the delivery of a satisfactory consumer experience with the traditional pressure on reducing installation and ongoing operating costs.

As a result, a growing number of retailers, brands, venue-operators and other organizations have identified the need and opportunity to implement increasingly cost-effective and “sales-lifting” digital marketing, and interactive experiences to market to their customers. These experiences include creating unique and customized experiences for targeted, timely offerings and relevant promotions; improving engagement resulting in increased sales; and increasing shopping basket size. We believe our clients consider capitalizing on these industry trends to be increasingly critical to any successful “store of the future” retail and brand sales environment, especially where sales staff turnover is high, training outcomes are inconsistent and product knowledge is low.

Companies are accomplishing their strategies by implementing various digital marketing technology solutions, which: are implemented in multiple forms and types of configurations and locations; attempt to achieve any of a broad range of individual or combination of objectives; contain various levels of targeting; have the ability to instantly manage single or multiple locations remotely from a customer's desktop or other connected device at each location; and are built to deliver or contain a standard or customized experience unique to and within the customer's environment. Examples of such solutions include:

- Digital Merchandising Systems, which aim to inform and interact with customers through various types of content in an integrated experience, improve in-store customer experiences and increase overall sales, upsells, and/or cross-sales;
- Digital Sales Assistants, which aim to replace or augment existing sales resources and the level of interactive and informational sales assistance inside the store;
- Digital Way-Finders, which aim to help customers navigate their way around individual retail stores and multi-store locations or venues, or within individual brand categories;
- Digital Kiosks, which aim to provide data, specialized and customized broadcasts, promotional information and coupons, train, and other forms of information and interaction with customers in a variety of deployment forms, types, configurations and experiences;
- Digital Menu-Board Systems, which aim to enable various types of restaurant operators the ability to remotely and on a scheduled basis, update and modify menu information, promotions, and other forms of content dynamically;
- Dynamic Digital Signage which aims to deliver and manage in-store marketing and advertising campaigns, specialized and customized broadcasts, and various other forms of messaging targeting customers in a particular experience or environment.

Our Markets

We currently market and sell our marketing technology solutions through our direct sales force, inside sales team, and word-of-mouth referrals from existing customers. Select strategic partnerships and lead generation programs also drive business to the Company through targeted business development initiatives. We market to companies that seek digital marketing solutions across multiple connected devices and who specifically seek or could benefit from enhancements to the customer experience offered in their stores, venues, brands or organizations. In addition to our direct sales force, we market our Safe Space Solutions suite of products through a network of distribution and reseller partners through which we have expanded our market presence and reach. Distributors operate on either a consignment or direct drop ship approach and no revenue is recognized until a sale is made and product is delivered.

Our digital marketing technology solutions have application in a wide variety of industries. The industries in which we sell our solutions are established and include automotive, apparel & accessories, banking, baby/children, beauty, CPG, department stores, digital out-of-home ("DOOH"), electronics, fashion, fitness, foodservice/quick service restaurant ("QSR"), financial services, gaming, luxury, mass merchants, mobile operators, and pharmacy retail; however, the planning, development, implementation and maintenance of technology-enabled experiences involving combinations of digital marketing technologies is relatively new and evolving. Moreover, a number of participants in these industries have only recently started considering or expanding the adoption of these types of technologies, solutions and experiences as part of their overall marketing strategies.

Seasonality

A portion of our customer activity is influenced by seasonal effects related to traditional end of calendar year peak retail sales periods, traditional spring stadium/venue opening seasons, and certain other factors that arise from our target customer base. Nevertheless, our revenues can be materially affected by the launch of new markets, the timing of production rollouts, and other factors, any of which have the ability to reduce or outweigh certain seasonal effects.

Effect of General Economic Conditions on our Business

We believe that demand for our services will increase in part because of new construction and remodeling activities of pre-existing retail, convenience store, stadium and event venues. While we do see reductions in retail footprints across the U.S., we see a continued focus on integration of digital into the retail marketplace and a focus on digital refreshes within the retail space to stay relevant in an evolving e-commerce marketplace. Recent general economic improvements generally make it easier for our customers to justify decisions to invest in digital marketing technology solutions. A change in the macroeconomic trend in the U.S. could have a negative impact on our customers' ability and/or willingness to advance their digital initiatives.

Regulation

We are subject to regulation by various federal and state governmental agencies. Such regulation includes radio frequency emission regulatory activities of the U.S. Federal Communications Commission, the consumer protection laws of the U.S. Federal Trade Commission, product safety regulatory activities of the U.S. Consumer Product Safety Commission, and environmental regulation in areas in which we conduct business. Some of the hardware components that we supply to customers may contain hazardous or regulated substances, such as lead. A number of U.S. states have adopted or are considering "takeback" bills addressing the disposal of electronic waste, including CRT style and flat panel monitors and computers. Electronic waste legislation is developing. Some of the bills passed or under consideration may impose on us, or on our customers or suppliers, requirements for disposal of systems we sell and the payment of additional fees to pay costs of disposal and recycling. Presently, we do not believe that any such legislation or proposed legislation will have a materially adverse impact on our business.

Our Thermal Mirror and other Safe Space Solutions products are utilized by employers, in part, to evaluate the temperature of their respective employees or guests to their facilities. Consequently, regulations from the U.S. Food and Drug Administration, as well as state regulations related to consumer and employee privacy rights, may apply to the sale and use of such devices within the United States. Similarly, because the devices are sold in Canada, regulations related to consumer and employee privacy in provinces where such regulations exist may apply to the sale and use of such devices in those provinces in Canada. Presently, we do not believe that any such legislation or proposed legislation will have a materially adverse impact on our business.

Competition

While we believe there is presently no direct competitor with the comprehensive offering of technologies, solutions and services we provide to our customers, there are multiple individual competitors who offer pieces of our solutions. These include digital signage software companies such as Stratacache, Four Winds Interactive, and Reflect Systems; marketing services companies such as Sapient Nitro or digital signage systems integrators such as SageNet. Some of these competitors may have significantly greater financial, technical and marketing resources than we do and may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. We believe that our sales and business development capabilities, network operations / field service management capabilities, our comprehensive offering of digital marketing technology and solutions, brand awareness, and proprietary processes are the primary factors affecting our competitive position.

Major Customers

We had two (2) and one (1) customer(s) that accounted for 27.8% and 18.5% of revenue for the years ended December 31, 2020 and 2019, respectively.

Decisions by one or more of these key customers to not renew, terminate or substantially reduce their use of our products, technology, services, and platform could substantially slow our revenue growth and lead to a decline in revenue. Our business plan assumes continued growth in revenue, and it is unlikely that we will become profitable without a continued increase in revenue.

For the years ended December 31, 2020 and 2019, we had sales of \$1,058 (6.1% of consolidated sales) and \$1,103 (3.5% of consolidated sales), respectively, with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees").

Territories

We sell products and services primarily throughout North America.

Employees

We have approximately 75 employees as of March 8, 2021. We do not have any employees that operate under collective-bargaining agreements.

ITEM 1A RISK FACTORS

Our business involves a high degree of risk. In evaluating our business, you should carefully consider the specific risks described below, and any risks described in our other filings with the Securities and Exchange Commission, pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934. Any of the risks we describe below could cause our business, financial condition, results of operations or future prospects to be materially adversely affected. In addition, some of the following statements are forward-looking statements. For more information about forward-looking statements, please see the “Forward-Looking Statements” section included in Item 7 of this Annual Report. Amounts within the “Risk Factors” section are stated in thousands with the exception of share information.

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

The ongoing COVID-19 pandemic has had, and may in the future have, a significant adverse impact on our advertising revenue and also exposes our business to other risks.

The ongoing COVID-19 pandemic has resulted in authorities implementing numerous preventative measures to contain or mitigate the outbreak of the virus, such as travel bans and restrictions, limitations on business activity, quarantines, and shelter-in-place orders. These measures have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas, both regionally and worldwide, which have significantly impacted our business and results of operations.

For example, for the year ended December 31, 2020, our revenue declined by \$14,141, or 45%, versus the year ended December 31, 2019, as compared to a four-year average revenue growth rate of 29.1% from 2015 to 2019, and represented the first revenue reduction for the Company since its merger with ConeXus World Global, LLC in October 2015. This reduction was driven by a combination of factors, including, but not limited to, a decrease in revenues generated from (1) installation services of \$4,962 following a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures as a direct result of the COVID-19 pandemic, (2) management services of \$1,186 related to contracts with customers which were partially or permanently closed during the year, and (3) reductions in new customer acquisition, each of which were directly attributable, either in whole or in part, to the COVID-19 pandemic.

While we have seen improved revenue generation and customer activity in the second half of 2020 and first quarter of 2021, there can be no assurance that it will not decrease again as a result of the effects of the pandemic. In addition, we believe that the pandemic has contributed to an acceleration in the shift of commerce from offline to online, potentially altering customer demand for our products and services as our customers evaluate the most effective approach to capture consumer demand.

The demand for and pricing of our services may be materially and adversely impacted by the pandemic for the foreseeable future, and we are unable to predict the duration or degree of such impact with any certainty. In addition to the impact on our installation and managed services business, the pandemic exposes our business, operations, and workforce to a variety of other risks, including:

- delays in product development or releases, or reductions in manufacturing production and sales of hardware, as a result of inventory shortages, supply chain or labor shortages, or diversion of our efforts and resources to projects related to COVID-19;
- our inability to recognize revenue, collect payment, or generate future revenue from customers, including from those that have been or may be forced to close their businesses or are otherwise impacted by the economic downturn;
- significant volatility and disruption of global financial markets, which could negatively impact our ability to access capital in the future;
- negative impact on our workforce productivity, product development, and research and development due to difficulties resulting from our personnel working remotely;
- illnesses to key employees, or a significant portion of our workforce, which may result in inefficiencies, delays, and disruptions in our business; and
- increased volatility and uncertainty in the financial projections we use as the basis for estimates used in our financial statements.

Any of these developments may adversely affect our business, harm our reputation, or result in legal or regulatory actions against us. The persistence of COVID-19, and the preventative measures implemented to help limit the spread of the illness, have impacted, and will continue to impact, our ability to operate our business and may materially and adversely impact our business, financial condition, and results of operations.

The launch of our new Safe Space Solutions products may not be successful.

On April 28, 2020, we announced the joint launch of an AI-integrated non-contact temperature inspection kiosk known as the Thermal Mirror with our partner, InReality, for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. Although we have experience in providing customers digital integration solutions, our launch of the Thermal Mirror involves the development, marketing and sale of a new product to new customers involving a joint effort with InReality. The product also uses hardware and technologies that have not been used with our other customers. To date, the Company and InReality continued to develop incremental use cases and subsequently launched a suite of Safe Space Solutions products addressing this market, each of which operate consistently with our primary business model in that they represent a sale of hardware and a SaaS-based subscription license services contract.

While we believe this product and our launch will be successful, there are a number of risks involved in such a launch. First, we are investing significant time and resources that take away the attention of management that would otherwise be available for ongoing development of our existing business or to respond to new opportunities. We also have limited cash and we are spending significant costs in the launch, which may ultimately not be successful. This cash could have been used to support our other proven business lines. We face significant competition from other COVID-19 related workplace safety solutions, and our competitors have more capital resources than we do. The failure to successfully manage these risks in the development and marketing of Safe Space Solutions could have a material, adverse effect on the Company's business, financial condition, and results of operations.

We have generally incurred losses, and may never become or remain profitable.

Except for the second, third and fourth quarters of 2019, we have incurred historical net losses. As of and for the year-ended December 31, 2020, we had a working capital deficit and negative cash flows from operations. We incurred a net loss for the years ended December 31, 2020 and December 31, 2019. While we have been able to achieve profitability in certain recent periods, it is uncertain whether we will be able to sustain or increase our profitability in successive periods.

We have formulated our business plans and strategies based on certain assumptions regarding the acceptance of our business model and the marketing of our products and services. Nevertheless, our assessments regarding market size, market share, market acceptance of our products and services and a variety of other factors may prove incorrect. Our future success will depend upon many factors, including factors beyond our control and those that cannot be predicted at this time. The ongoing COVID-19 pandemic has also caused a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures, and it is not known when these opportunities will be revived for the Company, if at all.

Our digital marketing business is evolving in a rapidly changing market, and we cannot ensure the long-term successful operation of our business or the execution of our business plan.

Our digital marketing technology and solutions are an evolving business offering and the markets in which we compete are rapidly changing and the evolution has slowed as a result of the COVID-19 pandemic. As a result, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in new and rapidly evolving markets. We may be unable to accomplish any of the following, which would materially impact our ability to implement our business plan:

- establishing and maintaining broad market acceptance of our technology, solutions, services, and platforms, and converting that acceptance into direct and indirect sources of revenue;
- establishing and maintaining adoption of our technology, solutions, services, and platforms in and on a variety of environments, experiences, and device types;
- timely and successfully developing new technology, solution, service, and platform features, and increasing the functionality and features of our existing technology, solution, service, and platform offerings;
- developing technology, solutions, services, and platforms that result in a high degree of customer satisfaction and a high level of end-customer usage;
- successfully responding to competition, including competition from emerging technologies and solutions;
- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our technology, solutions, services, and platforms;
- identifying, attracting and retaining talented engineering, network operations, program management, technical services, creative services, and other personnel at reasonable market compensation rates in the markets in which we employ such personnel; and
- integration of acquisitions.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully accomplish these tasks, our business will be harmed.

Adequate funds for our operations may not be available, requiring us to raise additional financing or else curtail our activities significantly.

On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company's common stock (the "Shares"), in a registered direct offering (the "Offering") at a purchase price of \$2.50 per Share, for gross proceeds of \$2,000. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1,835 which the Company intends to use for general corporate purposes. The closing of the Offering occurred on February 22, 2021.

We may nonetheless be required to raise additional funding through public or private financings, including equity financings, through 2021. We have an "at-the-market" offering in place, pursuant to which we may direct Roth Capital Partners, our sale agent, to sell shares of our common stock to investors in the market, subject to the terms and conditions of a sales agreement. These sales are dilutive to shareholders. Any additional equity financings may also be dilutive to shareholders and may be completed at a discount to the then-current market price of our securities. Debt financing, if available, may involve restrictive covenants on our operations or pertaining to future financing arrangements. Nevertheless, we may not successfully complete any future equity or debt financing. Adequate funds for our operations, whether from financial markets, collaborative or other arrangements, may not be available when needed or on terms attractive to us. If adequate funds are not available, our plans to operate our business may be adversely affected and we could be required to curtail our activities significantly and/or cease operating.

We do not have sufficient capital to engage in material research and development, which may harm our long-term growth.

In light of our limited resources in general, we have made no material investments in research and development over the past several years. This conserves capital in the short term. In the long term, as a result of our failure to invest in research and development, our technology and product offerings may not keep pace with the market, and we may lose any current existing competitive advantage. Over the long term, this may harm our revenues growth and our ability to become profitable.

We are reliant on the continued support of a related party for adequate financing of our operations.

As of March 8, 2021, our largest shareholder and investor, Slipstream Communications LLC (“Slipstream”) is the holder of 83.5% of our outstanding debt instruments including a term loan, secured revolving promissory note, and secured special promissory note and has beneficial ownership of approximately 36.2% of our common stock (on an as-converted, fully diluted basis including conversion of outstanding warrants, and assuming no other convertible securities, options and warrants are converted or exercised by other parties) as of December 31, 2020. Slipstream has also provided us with a continued support letter through March 31, 2022. If we are unable to extend the maturity or replace our existing financing agreements in the future, our plans to operate our business may be adversely affected and we could be required to curtail our activities significantly and/or cease operating.

We expect that there will be significant consolidation in our industry. Our failure or inability to lead that consolidation would have a severe adverse impact on our access to financing, customers, technology, and human resources.

Our industry is currently composed of a large number of relatively small businesses, no single one of which is dominant or which provides integrated solutions and product offerings incorporating much of the available technology. Accordingly, we believe that substantial consolidation may occur in our industry in the near future. If we do not play a positive role in that consolidation, either as a leader or as a participant whose capability is merged in a larger entity, we may be left out of this process, with product offerings of limited value compared with those of our competitors. Moreover, even if we lead the consolidation process, the market may not validate the decisions we make in that process.

Our success depends on our interactive marketing technologies achieving and maintaining widespread acceptance in our targeted markets.

Our success will depend to a large extent on broad market acceptance of our interactive marketing technologies among our current and prospective customers. Our prospective customers may still not use our solutions for a number of other reasons, including preference for static advertising, lack of familiarity with our technology, preference for competing technologies or perceived lack of reliability. We believe that the acceptance of our interactive marketing technologies by prospective customers will depend primarily on the following factors:

- our ability to demonstrate the economic and other benefits attendant to our interactive marketing technologies;
- our customers becoming comfortable with using our interactive marketing technologies; and
- the reliability of our interactive marketing technologies.

Our interactive technologies are complex and must meet stringent user requirements. Some undetected errors or defects may only become apparent as new functions are added to our technologies and products. The need to repair or replace products with design or manufacturing defects could temporarily delay the sale of new products and adversely affect our reputation. Delays, costs and damage to our reputation due to product defects could harm our business.

Our financial condition and potential for continued net losses may negatively impact our relationships with customers, prospective customers and third-party suppliers.

Our financial condition and potential for continued net losses may cause current and prospective customers to defer placing orders with us, to require terms that are less favorable to us, or to place their orders with our competitors, which could adversely affect our business, financial condition and results of operations. On the same basis, third-party suppliers may refuse to do business with us, or may do so only on terms that are unfavorable to us, which also could cause our expenses to increase.

Because we do not have long-term purchase commitments from our customers, the failure to obtain anticipated orders or the deferral or cancellation of commitments could have adverse effects on our business.

Our business is characterized by short-term purchase orders and contracts that do not require that purchases be made by our customers. This makes forecasting our sales difficult. The failure to obtain anticipated orders and deferrals or cancellations of purchase commitments because of changes in customer requirements, or otherwise, could have a material adverse effect on our business, financial condition and results of operations. We have experienced such challenges in the past and may experience such challenges in the future.

Our continued growth and financial performance could be adversely affected by the loss of several key customers, including a significant related party customer.

Our largest customers account for a significant portion of our total revenue on a consolidated basis. We had two (2) and one (1) customer(s) that accounted for 27.8% and 18.5% of revenue for the years ended December 31, 2020 and 2019, respectively.

For the years ended December 31, 2020 and 2019, we had sales of \$1,058 (6.1% of consolidated sales) and \$1,103 (3.5% of consolidated sales), respectively, with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management (“33 Degrees”).

Decisions by one or more of these key customers to not renew, terminate or substantially reduce their use of our products, technology, services, and platform could substantially slow our revenue growth and lead to a decline in revenue. Our business plan assumes continued growth in revenue, and it is unlikely that we will become profitable without a continued increase in revenue.

Most of our contracts are terminable by our customers with limited notice and without penalty payments, and early terminations could have a material adverse effect on our business, operating results and financial condition.

Most of our contracts are terminable by our customers following limited notice and without early termination payments or liquidated damages due from them. In addition, each stage of a project often represents a separate contractual commitment, at the end of which the customers may elect to delay or not to proceed to the next stage of the project. We cannot assure you that one or more of our customers will not terminate a material contract or materially reduce the scope of a large project. The delay, cancellation or significant reduction in the scope of a large project or a number of projects could have a material adverse effect on our business, operating results and financial condition.

It is common for our current and prospective customers to take a long time to evaluate our products, most especially during economic downturns that affect our customers’ businesses, including as a result of the COVID-19 pandemic. The lengthy and variable sales cycle makes it difficult to predict our operating results.

It is difficult for us to forecast the timing and recognition of revenue from sales of our products and services because our actual and prospective customers often take significant time to evaluate our products before committing to a purchase. Even after making their first purchases of our products and services, existing customers may not make significant purchases of those products and services for a long period of time following their initial purchases, if at all. The period between initial customer contact and a purchase by a customer may be years with potentially an even longer period separating initial purchases and any significant purchases thereafter. During the evaluation period, prospective customers may decide not to purchase or may scale down proposed orders of our products for various reasons, including:

- reduced need to upgrade existing visual marketing systems;
- introduction of products by our competitors;
- lower prices offered by our competitors; and
- changes in budgets and purchasing priorities.

Our prospective customers routinely require education regarding the use and benefit of our products. This may also lead to delays in receiving customers’ orders.

Our industry is characterized by frequent technological change. If we are unable to adapt our products and services and develop new products and services to keep up with these rapid changes, we will not be able to obtain or maintain market share.

The market for our products and services is characterized by rapidly changing technology, evolving industry standards, changes in customer needs, heavy competition and frequent new product and service introductions. If we fail to develop new products and services or modify or improve existing products and services in response to these changes in technology, customer demands or industry standards, our products and services could become less competitive or obsolete.

We must respond to changing technology and industry standards in a timely and cost-effective manner. We may not be successful in using new technologies, developing new products and services or enhancing existing products and services in a timely and cost-effective manner. Furthermore, even if we successfully adapt our products and services, these new technologies or enhancements may not achieve market acceptance.

A portion of our business involves the use of software technology that we have developed or licensed. Industries involving the ownership and licensing of software-based intellectual property are characterized by frequent intellectual-property litigation, and we could face claims of infringement by others in the industry. Such claims are costly and add uncertainty to our operational results.

A portion of our business involves our ownership and licensing of software. This market space is characterized by frequent intellectual property claims and litigation. We could be subject to claims of infringement of third-party intellectual-property rights resulting in significant expense and the potential loss of our own intellectual property rights. From time to time, third parties may assert copyright, trademark, patent or other intellectual property rights to technologies that are important to our business. Any litigation to determine the validity of these claims, including claims arising through our contractual indemnification of our business partners, regardless of their merit or resolution, would likely be costly and time consuming and divert the efforts and attention of our management and technical personnel. If any such litigation resulted in an adverse ruling, we could be required to:

- pay substantial damages;
- cease the development, use, licensing or sale of infringing products;
- discontinue the use of certain technology; or
- obtain a license under the intellectual property rights of the third party claiming infringement, which license may not be available on reasonable terms or at all.

Our proprietary platform architectures and data tracking technology underlying certain of our services are complex and may contain unknown errors in design or implementation that could result in system performance failures or inability to scale.

The platform architecture, data tracking technology and integration layers underlying our proprietary platforms, our contract administration, procurement, timekeeping, content and network management, network services, device management, virtualized services, software automation and other tools, and back-end services are complex and include specially developed software and code. This software and code are developed internally, licensed from third parties, or integrated by in-house personnel and third parties. Any of the system architecture, system administration, integration layers, software or code may contain errors, or may be implemented or interpreted incorrectly, particularly when they are first introduced or when new versions or enhancements to our tools and services are released. Consequently, our systems could experience performance failure, or we may be unable to scale our systems, which may:

- adversely impact our relationship with customers and others who experience system failure, possibly leading to a loss of affected and unaffected customers;
- increase our costs related to product development or service delivery; or
- adversely affect our revenues and expenses.

Our business may be adversely affected by malicious applications that interfere with, or exploit security flaws in, our products and services.

Our business may be adversely affected by malicious applications that make changes to our customers' computer systems and interfere with the operation and use of our products or products that impact our business. These applications may attempt to interfere with our ability to communicate with our customers' devices. The interference may occur without disclosure to or consent from our customers, resulting in a negative experience that our customers may associate with our products and services. These applications may be difficult or impossible to uninstall or disable, may reinstall themselves and may circumvent other applications' efforts to block or remove them. The ability to provide customers with a superior interactive marketing technology experience is critical to our success. If our efforts to combat these malicious applications fail, or if our products and services have actual or perceived vulnerabilities, there may be claims based on such failure or our reputation may be harmed, which would damage our business and financial condition.

We compete with other companies that have more resources, which puts us at a competitive disadvantage.

The market for interactive marketing technologies is generally highly competitive and we expect competition to increase in the future. Some of our competitors or potential competitors may have significantly greater financial, technical and marketing resources than us. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than us.

We expect competitors to continue to improve the performance of their current products and to introduce new products, services and technologies. Successful new product and service introductions or enhancements by our competitors could reduce sales and the market acceptance of our products and services, cause intense price competition or make our products and services obsolete. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. If we do not have sufficient resources to make these investments or are unable to make the technological advances necessary to be competitive, our competitive position will suffer. Increased competition could result in price reductions, fewer customer orders, reduced margins and loss of market share. Our failure to compete successfully against current or future competitors could adversely affect our business and financial condition.

Our future success depends on key personnel and our ability to attract and retain additional personnel.

Our key personnel include our:

- Rick Mills, our Chief Executive Officer;
- Will Logan, our Chief Financial Officer; and
- Mike McKim, our Vice President of Operations

If we fail to retain our key personnel or to attract, retain and motivate other qualified employees, our ability to maintain and develop our business may be adversely affected. Our future success depends significantly on the continued service of our key technical, sales and senior management personnel and their ability to execute our growth strategy. The loss of the services of our key employees could harm our business. We may be unable to retain our employees or to attract, assimilate and retain other highly qualified employees who could migrate to other employers who offer competitive or superior compensation packages, especially in light of the compensation reductions that we implemented in connection with the COVID-19 pandemic.

We are subject to cyber security risks and interruptions or failures in our information technology systems and will likely need to expend additional resources to enhance our protection from such risks. Notwithstanding our efforts, a cyber incident could occur and result in information theft, data corruption, operational disruption and/or financial loss.

We depend on digital technologies to process and record financial and operating data and rely on sophisticated information technology systems and infrastructure to support our business, including process control technology. At the same time, cyber incidents, including deliberate attacks, have increased. The U.S. government has issued public warnings that indicate that energy assets might be specific targets of cyber security threats. Our technologies, systems and networks and those of our vendors, suppliers and other business partners may become the target of cyberattacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary and other information, or other disruption of business operations. In addition, certain cyber incidents, such as surveillance, may remain undetected for an extended period. Our systems for protecting against cyber security risks may not be sufficient. As the sophistication of cyber incidents continues to evolve, we will likely be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents. Additionally, any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, usage errors by employees, computer viruses, cyber-attacks or other security breaches or similar events. The failure of any of our information technology systems may cause disruptions in our operations, which could adversely affect our revenues and profitability.

Our reliance on information management and transaction systems to operate our business exposes us to cyber incidents and hacking of our sensitive information if our outsourced service provider experiences a security breach.

Effective information security internal controls are necessary for us to protect our sensitive information from illegal activities and unauthorized disclosure in addition to denial of service attacks and corruption of our data. In addition, we rely on the information security internal controls maintained by our outsourced service provider. Breaches of our information management system could also adversely affect our business reputation. Finally, significant information system disruptions could adversely affect our ability to effectively manage operations or reliably report results.

Because our technology, products, platform, and services are complex and are deployed in and across complex environments, they may have errors or defects that could seriously harm our business.

Our technology, proprietary platforms, products and services are highly complex and are designed to operate in and across data centers, large and complex networks, and other elements of the digital media workflow that we do not own or control. On an ongoing basis, we need to perform proactive maintenance services on our platform and related software services to correct errors and defects. In the future, there may be additional errors and defects in our software that may adversely affect our services. We may not have in place adequate reporting, tracking, monitoring, and quality assurance procedures to ensure that we detect errors in our software in a timely manner. If we are unable to efficiently and cost-effectively fix errors or other problems that may be identified, or if there are unidentified errors that allow persons to improperly access our services, we could experience loss of revenues and market share, damage to our reputation, increased expenses and legal actions by our customers.

We may have insufficient network or server capacity, which could result in interruptions in our services and loss of revenues.

Our operations are dependent in part upon: network capacity provided by third-party telecommunications networks; data center services provider owned and leased infrastructure and capacity; our dedicated and virtualized server capacity located at its data center services provider partner and a geo-redundant micro-data center location; and our own infrastructure and equipment. Collectively, this infrastructure, equipment, and capacity must be sufficiently robust to handle all of our customers' web-traffic, particularly in the event of unexpected surges in high-definition video traffic and network services incidents. We (and our service providers) may not be adequately prepared for unexpected increases in bandwidth and related infrastructure demands from our customers. In addition, the bandwidth we have contracted to purchase may become unavailable for a variety of reasons, including payment disputes, outages, or such service providers going out of business. Any failure of these service providers or our own infrastructure to provide the capacity we require, due to financial or other reasons, may result in a reduction in, or interruption of, service to our customers, leading to an immediate decline in revenue and possible additional decline in revenue as a result of subsequent customer losses.

Our business operations are susceptible to interruptions caused by events beyond our control.

Our business operations are susceptible to interruptions caused by events beyond our control. We are vulnerable to the following potential problems, among others:

- our platform, technology, products, and services and underlying infrastructure, or that of our key suppliers, may be damaged or destroyed by events beyond our control, such as fires, earthquakes, floods, power outages or telecommunications failures;
- we and our customers and/or partners may experience interruptions in service as a result of the accidental or malicious actions of Internet users, hackers or current or former employees;
- we may face liability for transmitting viruses to third parties that damage or impair their access to computer networks, programs, data or information. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to our customers; and
- failure of our systems or those of our suppliers may disrupt service to our customers (and from our customers to their customers), which could materially impact our operations (and the operations of our customers), adversely affect our relationships with our customers and lead to lawsuits and contingent liability.

The occurrence of any of the foregoing could result in claims for consequential and other damages, significant repair and recovery expenses and extensive customer losses and otherwise have a material adverse effect on our business, financial condition and results of operations.

The markets in which we operate are rapidly emerging, and we may be unable to compete successfully against existing or future competitors to our business.

The market in which we operate is becoming increasingly competitive. Our current competitors generally include general digital signage companies, specialized digital signage operators targeting certain vertical markets (e.g., financial services), content management software companies, or integrators and vertical solution providers who develop single implementations of content distribution, digital marketing technology, and related services. These competitors, including future new competitors who may emerge, may be able to develop a comparable or superior solution capabilities, software platform, technology stack, and/or series of services that provide a similar or more robust set of features and functionality than the technology, products and services we offer. If this occurs, we may be unable to grow as necessary to make our business profitable.

Whether or not we have superior products, many of these current and potential future competitors have a longer operating histories in their current respective business areas and greater market presence, brand recognition, engineering and marketing capabilities, and financial, technological and personnel resources than we do. Existing and potential competitors with an extended operating history, even if not directly related to our business, have an inherent marketing advantage because of the reluctance of many potential customers to entrust key operations to a company that may be perceived as new, inexperienced or unproven. In addition, our existing and potential future competitors may be able to use their extensive resources to:

- develop and deploy new products and services more quickly and effectively than we can;
- develop, improve and expand their platforms and related infrastructures more quickly than we can;
- reduce costs, particularly hardware costs, because of discounts associated with large volume purchases and longer-term relationships and commitments;
- offer less expensive products, technology, platform, and services as a result of a lower cost structure, greater capital reserves or otherwise;
- adapt more swiftly and completely to new or emerging technologies and changes in customer requirements;
- take advantage of acquisition and other opportunities more readily; and
- devote greater resources to the marketing and sales of their products, technology, platform, and services.

If we are unable to compete effectively in our various markets, or if competitive pressures place downward pressure on the prices at which we offer our products and services, our business, financial condition and results of operations may suffer.

Risks Related to Our Securities and Our Company

The variable sales cycle of some of the combined company's products will likely make it difficult to predict operating results.

Our revenues in any quarter depend substantially upon contracts signed and the related shipment and installation or delivery of hardware and software products in that quarter. It is therefore difficult for us to accurately predict revenues and this difficulty also will affect the Company. It is difficult to forecast the timing of large individual hardware and software sales with a high degree of certainty due to the extended length of the sales cycle and the generally more complex contractual terms that may be associated with our products that could result in the deferral of some or all of the revenue to future periods.

Accordingly, large individual sales have sometimes occurred in quarters subsequent to when we anticipated or not at all. If we receive any significant cancellation or deferral of customer orders, or it is unable to conclude license negotiations by the end of a fiscal quarter, our operating results may be lower than anticipated. In addition, any weakening or uncertainty in the economy may make it more difficult for the Company to predict quarterly results in the future, and could negatively impact our business, operating results and financial condition for an indefinite period of time.

Our largest shareholder possesses controlling voting power with respect to our common stock, which will limit your influence on corporate matters.

Our largest shareholder, Slipstream Communications, LLC, has beneficial ownership of 6,726,350 shares of common stock, including common shares that are beneficially owned by its affiliate Slipstream Funding, LLC. In addition, the Company may pay off certain of its outstanding principal and interest owed to Slipstream Communications, LLC in shares of its common stock, which would increase the number of shares beneficially owned by Slipstream Communications. These shares represent beneficial ownership of approximately 36.2% of our common stock (on an as-converted basis including conversion of outstanding warrants) as of March 7, 2021. As a result, Slipstream Communications, LLC has significant influence on our management and affairs, including the election and removal of our Board of Directors and all other matters requiring shareholder approval, including the future merger, consolidation or sale of all or substantially all of our assets. This stockholder position could discourage others from initiating any potential merger, takeover or other change-of-control transaction that may otherwise be beneficial to our shareholders. Furthermore, this concentrated ownership will limit the practical effect of your participation in Company matters, through shareholder votes and otherwise.

Our Articles of Incorporation grant our Board of Directors the power to issue additional shares of common and preferred stock and to designate other classes of preferred stock, all without shareholder approval.

Our authorized capital consists of 250 million shares of capital stock, 50 million of which is undesignated preferred stock. Pursuant to authority granted by our Articles of Incorporation, our Board of Directors, without any action by our shareholders, may designate and issue shares in such classes or series (including other classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights, provided it is consistent with Minnesota law. The rights of holders of other classes or series of stock that may be issued could be superior to the rights of holders of our common shares. The designation and issuance of shares of capital stock having preferential rights could adversely affect other rights appurtenant to shares of our common stock. Furthermore, any issuances of additional stock (common or preferred) will dilute the percentage of ownership interest of then-current holders of our capital stock and may dilute our book value per share.

We do not intend to pay dividends on our common stock for the foreseeable future.

We do not plan to pay dividends on our common stock for the foreseeable future. Earnings of the business will be reinvested in future growth strategies or utilized to repay outstanding debt.

We do not have significant tangible assets that could be sold upon liquidation.

We have nominal tangible assets. As a result, if we become insolvent or otherwise must dissolve, there will be no tangible assets to liquidate and no corresponding proceeds to disburse to our shareholders. If we become insolvent or otherwise must dissolve, shareholders will likely not receive any cash proceeds on account of their shares.

We can provide no assurance that our securities will continue to meet Nasdaq listing requirements. If we fail to comply with the continuing listing standards of the Nasdaq, our securities could be delisted.

If we fail to comply with the continuing listing standards of the Nasdaq, our securities could be delisted. A failure to remain listed on Nasdaq could have a material adverse effect on the liquidity and price of our common stock.

Our pending disputes arising out of our Allure acquisition may harm our financial condition and results of operations.

We acquired the capital stock of Allure in 2018 from Christie Digital Systems. We are currently engaged in a dispute involving Allure and its legacy customer based upon alleged deficient products and services provided by Allure prior to our acquisition. The alleged claim seeks \$3,200 from us in damages that, if successful, would materially adversely affect our business. We have also tendered an indemnity claim against Christie Digital Systems for the claimed damages in such dispute, and have alleged additional damages related to the Allure acquisition. In connection with our claims against Christie Digital, we asserted an offset right and have not paid to Christie Digital Systems the \$1,637 outstanding principal or accrued interest under a promissory note that matured on February 20, 2020. Christie Digital Systems disputes our ability to exercise such offset right. At this time, there is no guarantee that we will prevail on any matter. Our required payment of the foregoing amounts would have a material adverse effect on our cash flow and operations.

GENERAL RISK FACTORS

Unpredictability in financing markets could impair our ability to grow our business through acquisitions.

We anticipate that opportunities to acquire similar businesses will materially depend on, among other things, the availability of financing alternatives with acceptable terms. As a result, poor credit and other market conditions or uncertainty in financial markets could materially limit our ability to grow through acquisitions since such conditions and uncertainty make obtaining financing more difficult.

Because of our limited resources, we may not have in place various processes and protections common to more mature companies and may be more susceptible to adverse events.

We have limited resources as a result of, among other things, significant restructuring and integration costs incurred in connection with prior acquisition activities. As a result, we may not have in place systems, processes and protections that many of our competitors have or that may be essential to protect against various risks. For example, we have in place only limited resources and processes addressing human resources, timekeeping, data protection, business continuity, personnel redundancy, and knowledge institutionalization concerns. As a result, we are at risk that one or more adverse events in these and other areas may materially harm our business, balance sheet, revenues, expenses or prospects.

General global market and economic conditions may have an adverse impact on our operating performance and results of operations.

Our business has been and could continue to be affected by general global economic and market conditions. Any downturn in the United States and worldwide economy could have a negative effect on our operating results, including a decrease in revenue and operating cash flow. To the extent our customers are unable to profitably leverage various forms of digital marketing technology and solutions, and/or the content we create, deliver and publish on their behalf, they may reduce or eliminate their purchase of our products and services. Such reductions in traffic would lead to a reduction in our revenues. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, slowdown in commerce over the Internet and corresponding decrease in traffic delivered over our network and failures by our customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for equipment, field services, servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or revenues. Flat or worsening economic conditions may harm our operating results and financial condition.

In addition, our business could be adversely affected by the effects of a widespread outbreak of contagious disease, including the recent outbreak of the COVID-19 respiratory illness. A significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products, our ability to collect against existing trade receivables and our operating results. Specifically, such event may cause us, our customers or suppliers to temporarily suspend operations in the affected city or country, and customers may suspend or terminate capital improvements including in-store digital deployments or refresh projects, all of which may have a material adverse effect on our business.

Significant issuances of our common stock, or the perception that significant issuances may occur in the future, could adversely affect the market price for our common stock.

Significant actual or perceived potential future issuance of our common stock could adversely affect the market price of our common stock. Generally, issuances of substantial amounts of common stock in the public market, and the availability of shares for future sale, could adversely affect the prevailing market price of our common stock and could cause the market price of our common stock to remain low for a substantial amount of time.

We cannot foresee the impact of potential securities issuances of common shares on the market for our common stock, but it is possible that the market for our shares may be adversely affected, perhaps significantly. It is also unclear whether or not the market for our common stock could absorb a large number of attempted sales in a short period of time, regardless of the price at which they might be offered.

There may not be an active market for shares of our common stock.

In general, there has been minimal trading volume in our common stock. Small trading volumes would likely make it difficult for our shareholders to sell their shares as and when they choose. Furthermore, small trading volumes are generally understood to depress market prices. As a result, you may not always be able to resell shares of our common stock publicly at the time and prices that you feel are fair or appropriate.

ITEM 2 PROPERTIES

(All currency is rounded to the nearest thousands, except share and per share amounts.)

Our headquarters is located at 13100 Magisterial Drive, Suite 100, Louisville, KY 40223. There, we have approximately 17,500 square-feet of office space and 6,500 square-feet of warehouse space, which we believe is sufficient for our projected near-term future growth. The monthly lease amount is currently \$30 and escalates 1% annually through the end of the lease term in December 2023, should the Company elect to retain the entire space. We restructured this lease during 2020, which allows the Company to right to exit approximately 9,100 square feet of space and reduce the monthly rent expense by \$13 per month beginning in July 2021. The restructured lease also provided the Company deferred payment terms of approximately \$6 monthly between July 2020 and June 2021. The Consolidated Balance Sheet includes accrued rental payments related to this deferral of \$42 as of December 31, 2020.

The corporate phone number is (502) 791-8800.

We also lease office space of approximately 6,000 square feet to support our Canadian operations at a facility located at 4600 Rhodes Drives, Unit 3& 4, Windsor, Ontario under a lease that expires November 30, 2025 and with a monthly rental, inclusive of CAMS and related realty taxes, of \$9 CAD per month.

We also lease office space of approximately 900 square feet to support our Atlanta operations at a facility known as Northridge Center II and having as its street address at 365 Northridge Road, Atlanta, GA 30350. This property is under lease until September 30, 2021 with a monthly rental of \$2.

ITEM 3 LEGAL PROCEEDINGS

On August 2, 2019, the Company filed suit in Jefferson Circuit Court, Kentucky, against a supplier of Allure for breach of contract, breach of warranty, and negligence with respect to equipment installations performed by such supplier for an Allure customer.

On October 10, 2019, the Allure customer that is the basis of our claim above sent a demand to the Company for payment of \$3,200 as settlement for an alleged breach of contract related to hardware failures of equipment installations performed by Allure between November 2017 and August 2018, before our acquisition of Allure. The suits filed by and against Allure were consolidated in the Jefferson Circuit Court, Kentucky in January 2020. These consolidated cases remain in the early stages of litigation and, as a result, the outcome of each and the allocation of liability, if any, remain unclear, so the Company is unable to reasonably estimate the possible liability, recovery, or range of magnitude for either the liability or recovery, if any, at the time of this filing.

The Company has notified its insurance company of potential claims and continues to evaluate both the claim made by the customer and potential avenues for recovery against third parties should the customer prevail.

On February 20, 2020, the Company and Allure filed a demand for arbitration against Seller (Christie Digital Systems, Inc.) for breach of contract, indemnification, and fraudulent misrepresentation under the Purchase Agreement executed in connection with our acquisition of Allure. This demand includes a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. In December 2020, the parties entered a pre-arbitration mediation process in an effort to settle the litigation, which remains ongoing as of the date of this report. We continue to assert the offset right under the Purchase Agreement and Amended and Reseller Note.

Information regarding legal proceeding can be found in Note 9 *Commitments and Contingencies* to the Company's Consolidated Financial Statements.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(All currency is rounded to the nearest thousands, except share and per share amounts.)

Market Information

Our common stock is listed for trading on the Nasdaq Capital Markets ("Nasdaq") under the symbol "CREX". Trading of our common stock on Nasdaq commenced on November 19, 2018. Prior to November 19, 2018, our common stock was listed for trading on the OTC Bulletin Board, the "OTCQX," under the symbol "CREX." The transfer agent and registrar for our common stock is Computershare Limited, 401 2nd Avenue North, Minneapolis, Minnesota 55401.

Shareholders

As of March 8, 2021, we had 344 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain future earnings, if any, to operate and expand our business and to finance the development and expansion of our business. We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our Board of Directors.

Holders of our common stock are entitled to share pro rata in dividends and distributions with respect to the common stock when, as and if declared by our Board of Directors out of funds legally available therefor. Our future dividend policy is subject to the sole discretion of our Board of Directors and will depend upon a number of factors, including future earnings, capital requirements and our financial condition.

Recent Sales of Unregistered Securities

On March 7, 2021, the Company and its subsidiaries (collectively, the "Borrowers") refinanced their current debt facilities with Slipstream Communications, LLC ("Slipstream"), pursuant to an Amended and Restated Credit and Security Agreement (the "Credit Agreement"). The debt facilities continue to be fully secured by all assets of the Borrowers. The maturity date ("Maturity Date") on the outstanding debt and new debt is extended to March 31, 2023. The Credit Agreement (i) provides a \$1,000 of availability under a line of credit (the "Line of Credit"), (ii) consolidates our existing term and revolving line of credit facilities into a new term loan (the "New Term Loan") having an aggregate principal balance of approximately \$4,550 (including a 3.0% issuance fee capitalized into the principal balance), (iii) increases the outstanding special convertible term loan (the "Convertible Loan") to approximately \$2,280 (including a 3.0% issuance fee capitalized into the principal balance), and (iv) extinguishes the outstanding obligations owed with respect to a \$264 existing disbursed escrow loan in exchange for shares of the Company's common stock (the "Disbursed Escrow Conversion Shares"), valued at \$2.718 per share (the trailing 10-day volume weighted average price ("VWAP")) as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement). The Line of Credit and Convertible Loan accrue interest at 10% per year, and the New Term Loan accrues interest at 8% per year.

The New Term Loan requires no principal payments until the Maturity Date, and interest payments are payable on the first day of each month until the Maturity Date. All interest payments owed prior to October 1, 2021 are payable as PIK payments, or increases to the principal balance only.

The Line of Credit and Convertible Loan require payments of accrued interest payable on the first day of each month through April 1, 2022. All such interest payments made prior to October 1, 2021 are payable as PIK payments, or increases to the principal balances under the Line of Credit and Convertible Loan only. No principal payments are owed under the Line of Credit or Convertible Loan until April 1, 2022, at which time all principal and interest on each of the Line of Credit and Convertible Loan will be paid in monthly installments until the Maturity Date to fully amortize outstanding principal by the Maturity Date.

All payments of interest (other than PIK payments) and principal on the Line of Credit and Convertible Loan may be paid, in the Borrowers' sole discretion, in shares of the Company's Common Stock (the "Payment Shares," and together with the Disbursed Escrow Conversion Shares, the "Shares"). The Payment Shares will be valued on a per-Share basis at 70% of the VWAP of the Company's shares of common stock as reported on the Nasdaq Capital Market for the 10 trading days immediately prior to the date such payment is due; provided that the Payment Shares shall not be valued below \$0.50 per Share (the "Share Price").

The Credit Agreement limits the Company's ability to issue Shares as follows (the "Exchange Limitations"): (1) The total number of Shares that may be issued under the Credit Agreement will be limited to 19.99% of the Company's outstanding shares of common stock on the date the Credit Agreement is signed (the "Exchange Cap"), unless stockholder approval is obtained to issue shares in excess of the Exchange Cap; (2) if Slipstream and its affiliates (the "Slipstream Group") beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares and such shares are less than 19.99% of the then-issued and outstanding shares of Company common stock, the issuance of such Payment Shares will not cause the Slipstream Group to beneficially own in excess of 19.99% of the issued and outstanding shares of Company common stock after such issuance unless stockholder approval is obtained for ownership in excess of 19.99%; and (3) if the Slipstream Group does not beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares, the Company may not issue Payment Shares to the extent that such issuance would result in Slipstream Group beneficially owning more than 19.99% of the then issued and outstanding shares of Company common stock unless (A) such ownership would not be the largest ownership position in the Company, or (B) stockholder approval is obtained for ownership in excess of 19.99%.

The Borrowers covenant to, within 30 days of the signing of the Credit Agreement, file a preliminary proxy statement with the SEC to procure an approval of the transactions contemplated herein from its majority stockholders for purposes of complying with Nasdaq Marketplace Rule 5635(b), (c) and (d). The Borrowers will thereafter use their commercially reasonable efforts to file a definitive proxy statement to cause to be held a shareholder meeting for such approval.

The Borrowers will use their reasonable best efforts to have declared effective within 45 days of signing of the Credit Agreement ("Effectiveness Date") a registration statement on Form S-3 covering the resale of the Disbursed Escrow Conversion Shares and the Payment Shares.

ITEM 6 SELECTED FINANCIAL DATA

Not applicable.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All currency is rounded to the nearest thousands, except share and per share amounts.)

Forward-Looking Statements

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words "anticipates," "believes," "expects," "intends," "plans," "estimates" and similar expressions, as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated. Factors that could cause actual results to differ materially from those anticipated, certain of which are beyond our control, are set forth in Item 1A under the caption "Risk Factors."

Our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking statements. Accordingly, we cannot be certain that any of the events anticipated by forward-looking statements will occur or, if any of them do occur, what impact they will have on us. We caution you to keep in mind the cautions and risks described in this document and to refrain from attributing undue certainty to any forward-looking statements, which speak only as of the date of the document in which they appear. We do not undertake to update any forward-looking statement.

Overview

Creative Realities, Inc. is a Minnesota corporation that provides innovative digital marketing technology solutions to a broad range of companies, individual brands, enterprises, and organizations throughout the United States and in certain international markets. We have expertise in a broad range of existing and emerging digital marketing technologies across approximately fifteen (15) vertical markets, as well as the related media management and distribution software platforms and networks, device and content management, product management, customized software service layers, systems, experiences, workflows, and integrated solutions. Our technology and solutions include: digital merchandising systems and omni-channel customer engagement systems; content creation, production and scheduling programs and systems; a comprehensive series of recurring maintenance, support, and field service offerings; interactive digital shopping assistants, advisors and kiosks; and, other interactive marketing technologies such as mobile, social media, point-of-sale transactions, beaconing and web-based media that enable our customers to transform how they engage with consumers.

Our main operations are conducted directly through Creative Realities, Inc. and our wholly owned subsidiary Creative Realities Canada, Inc., a Canadian corporation. Our other wholly owned subsidiaries are effectively dormant: Creative Realities, LLC, a Delaware limited liability company, ConeXus World Global, LLC, a Kentucky limited liability company, and Allure Global Solutions, Inc., a Georgia corporation.

We generate revenue by:

- consulting with our customers to determine the technologies and solutions required to achieve their specific goals, strategies and objectives;
- designing our customers' digital marketing experiences, content and interfaces;
- engineering the systems architecture delivering the digital marketing experiences we design – both software and hardware – and integrating those systems into a customized, reliable and effective digital marketing experience;
- managing the efficient, timely and cost-effective deployment of our digital marketing technology solutions for our customers;
- delivering and updating the content of our digital marketing technology solutions using a suite of advanced media, content and network management software products; and
- maintaining our customers' digital marketing technology solutions by: providing content production and related services; creating additional software-based features and functionality; hosting the solutions; monitoring solution service levels; and responding to and/or managing remote or onsite field service maintenance, troubleshooting and support calls.

These activities generate revenue through: bundled-solution sales; consulting services, experience design, content development and production, software development, engineering, implementation, and field services; software license fees; and maintenance and support services related to our software, managed systems and solutions.

Recent Developments

COVID-19 Pandemic

In January 2020, an outbreak of a new strain of coronavirus, COVID-19, was identified in Wuhan, China. Through the first quarter of 2020, the disease became widespread around the world, and on March 11, 2020, the World Health Organization declared a pandemic. Thereafter, state and local authorities in the United States and worldwide have forced many businesses to temporarily reduce or cease operations to slow the spread of the COVID-19 pandemic.

As a result of the COVID-19 pandemic, we experienced rapid and immediate deterioration in our business in each of our key vertical markets. The elective and forced closures of, and implementation of social distancing policies on, businesses across the United States has resulted in materially reduced demand for our services by our customers, as our customers purchase our products and services to engage with their end customers in a physical space through digital technology, particularly in our theater, sports arena and large entertainment markets. The reduced demand has resulted in customer orders being delayed. These conditions resulted in downward revisions of our internal forecasts on current and future projected earnings and cash flows, resulting in a non-cash impairment loss of \$10,646 recording during the period, and reduced liquidity as described below.

While we are experiencing an intense curtail in current customer demand, our long-term outlook for the digital signage industry remains strong. We believe that the digital signage industry will experience rapid consolidation, adding scale and enhancing profitability to those companies that emerge as the enterprise-level providers within our industry after the COVID-19 pandemic and consolidations. We believe that one byproduct of the COVID-19 pandemic may be the acceleration of industry consolidation as smaller providers may be unwilling or unable to continue business over the course of 2021.

Given the uncertainty around the extent and timing of the potential future spread or mitigation of the COVID-19 pandemic and around the imposition or relaxation of protective measures, we cannot reasonably estimate the impact to our future results of operations, cash flows, or financial condition at this time.

See “Employee Related Expenses” within Note 9 *Commitments and Contingencies* for a discussion of the Company’s cost-control measures, including employment compensation reductions designed to achieve preliminary cost savings in light of the significant economic uncertainty caused by the COVID-19 pandemic.

Safe Space Solutions

On April 28, 2020, we announced the joint launch of an AI-integrated non-contact temperature inspection kiosk known as the Thermal Mirror with our partner, InReality, LLC (“InReality”), for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. Although we have experience in providing customers digital integration solutions, our launch of the Thermal Mirror involves the development, marketing and sale of a new product to new customers involving a joint effort with InReality. The product also uses hardware and technologies that have not been used with our other customers. Throughout the course of the remainder of 2020, the Company and InReality have continued to develop incremental use cases and have launched a suite of Safe Space Solutions products addressing this market, each of which operate consistently with our primary business model in that they represent a sale of hardware and a SaaS-based subscription license services contract.

Although we believe these products and our launch will be successful, there are a number of risks involved in such launch, including investing significant time and resources in the launch, which may ultimately not be successful. While market response has been encouraging, we may not ultimately recover our investment into the launch of these products.

At-the-market offering

On June 19, 2020, the Company entered into a Sales Agreement (the “Agreement”) with Roth Capital Partners, LLC (“Roth”) under which the Company may offer and sell, from time to time at its sole discretion, shares of its common stock, par value \$0.01 per share (the “Common Stock”), having an aggregate offering price of up to \$8,000,000 through Roth as the Company’s sales agent. Roth may sell the Common Stock by any method permitted by law deemed to be an “at the market offering” as defined in Rule 415 of the Securities Act of 1933, as amended. Subject to the terms of the Agreement, Roth will use its commercially reasonable efforts to sell the Common Stock from time to time, based upon instructions from the Company (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company or Roth may suspend the offering of the Common Stock being made through Roth under the Agreement upon proper notice to the other party. The Company will pay Roth a commission of 3.0% of the gross sales proceeds of any Common Stock sold through Roth under the Agreement, and also has provided Roth with customary indemnification rights. The sale of Common Stock under the Agreement is registered on a Form S-3 registration statement (Registration No. 333-238275) and related prospectus supplement filed with the SEC on June 19, 2020. Pursuant to the “baby shelf” rules that apply to such registration statement, we cannot sell our common stock in a public primary offering (including under the Agreement) with a value exceeding more than one-third of our public float in any 12 calendar month period so long as our public float remains below \$75.0 million.

The Company is not obligated to make any sales of Common Stock under the Agreement. The offering of shares of Common Stock pursuant to the Agreement will terminate upon the earlier of (i) the sale of all Common Stock subject to the Agreement or (ii) termination of the Agreement in accordance with its terms.

Through March 8, 2021, the Company received gross proceeds under the Agreement of \$1,831 from the issuance of 1,034,068 shares of our Common Stock, and paid an aggregate of \$53 to Roth in commissions, yielding net proceeds of \$1,778 after commissions, and net proceeds of \$1,636 after other offering-related expenses.

Registered Direct Offering

On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company's common stock (the "Shares"), in a registered direct offering (the "Offering") at a purchase price of \$2.50 per Share, for gross proceeds of \$2,000. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1,835, which the Company intends to use for general corporate purposes. The closing of the Offering occurred on February 22, 2021.

Amended and Restated Credit Agreement

On March 7, 2021, the Company and its subsidiaries (collectively, the "Borrowers") refinanced their current debt facilities with Slipstream Communications, LLC ("Slipstream"), pursuant to an Amended and Restated Credit and Security Agreement (the "Credit Agreement"). The debt facilities continue to be fully secured by all assets of the Borrowers. The maturity date ("Maturity Date") on the outstanding debt and new debt is extended to March 31, 2023. The Credit Agreement (i) provides a \$1,000 of availability under a line of credit (the "Line of Credit"), (ii) consolidates our existing term and revolving line of credit facilities into a new term loan (the "New Term Loan") having an aggregate principal balance of approximately \$4,550 (including a 3.0% issuance fee capitalized into the principal balance), (iii) increases the outstanding special convertible term loan (the "Convertible Loan") to approximately \$2,280 (including a 3.0% issuance fee capitalized into the principal balance), and (iv) extinguishes the outstanding obligations owed with respect to a \$264 existing disbursed escrow loan in exchange for shares of the Company's common stock (the "Disbursed Escrow Conversion Shares"), valued at \$2.718 per share (the trailing 10-day VWAP as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement). The Line of Credit and Convertible Loan accrue interest at 10% per year, and the New Term Loan accrues interest at 8% per year. See Note 8 *Loans Payable* for additional information with respect to the Credit Agreement.

Our Sources of Revenue

We generate revenue through digital marketing solution sales, which include system hardware, professional and implementation services, software design and development, software licensing, deployment, and maintenance and support services.

We currently market and sell our technology and solutions primarily through our sales and business development personnel, but we also utilize agents, strategic partners, and lead generators who provide us with access to additional sales, business development and licensing opportunities.

Our Expenses

Our expenses are primarily comprised of three categories: sales and marketing, research and development, and general and administrative. Sales and marketing expenses include salaries and benefits for our sales, business development solution management and marketing personnel, and commissions paid on sales. This category also includes amounts spent on marketing networking events, promotional materials, hardware and software to prospective new customers, including those expenses incurred in trade shows and product demonstrations, and other related expenses. Our research and development expenses represent the salaries and benefits of those individuals who develop and maintain our proprietary software platforms and other software applications we design and sell to our customers. Our general and administrative expenses consist of corporate overhead, including administrative salaries, real property lease payments, salaries and benefits for our corporate officers and other expenses such as legal and accounting fees.

Critical Accounting Policies and Estimates

Our management is responsible for our financial statements and has evaluated the accounting policies to be used in their preparation. Our management believes these policies are reasonable and appropriate. The Company's significant accounting policies are described in Note 2 *Summary of Significant Accounting Policies* of the Company's Consolidated Financial Statements included within Part II, ITEM 8 of this Report. The following discussion identifies those accounting policies that we believe are critical in the preparation of our financial statements, the judgments and uncertainties affecting the application of those policies and the possibility that materially different amounts will be reported under different conditions or using different assumptions.

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ from those estimates.

Revenue Recognition

We recognized revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"). Under ASC 606, we account for revenue using the following steps:

- Identify the contract, or contracts, with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the identified performance obligations
- Recognize revenue when, or as, we satisfy our performance obligations

See Note 2 *Summary of Significant Accounting Policies* and Note 4 *Revenue Recognition* in our Consolidated Financial Statements, included in Part II, ITEM 8 of this Report, for a complete discussion of our revenue recognition policies.

Allowance for Doubtful Accounts

We have not made any material changes in the accounting methodology we use to measure the estimated liability for doubtful accounts during the past two fiscal years. The Company's methodology for calculating the allowance for doubtful accounts consists of (1) reserving for specific receivables which (a) are known to be facing serious financial problems, (b) have a trade dispute with the Company, or (c) are significantly aged and/or unresponsive, and (2) a general reserve for unaged accounts receivable based on a percentage of revenue each period. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to establish the liability for doubtful accounts. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

Goodwill

Goodwill is evaluated for impairment annually as of September 30 and whenever events or circumstances make it more likely than not that impairment may have occurred. We have no indefinite-lived intangible assets. We test goodwill for impairment by comparing the book value to the fair value at the reporting unit level. We have only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit. The fair value of the reporting unit is determined by using a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur. We use these same expectations in other valuation models throughout the business. In addition to the discounted cash flow analysis, we utilize a leveraged buy-out model, trading comps and market capitalization to ultimately determine an estimated fair value of our reporting unit based on weighted average calculations from these models. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. If the carrying amount exceeds the fair value, further analysis is performed to measure the impairment loss.

In addition, our market capitalization could fluctuate from time to time. Such fluctuation may be an indicator of possible impairment of goodwill if our market capitalization falls below its book value. If this situation occurs, we perform the required detailed analysis to determine if there is impairment.

During the first quarter of 2020, we determined that the reduced cash flow projections and the significant decline in our market capitalization as a result of the COVID-19 pandemic during the three months ended March 31, 2020 indicated that an impairment loss may have been incurred during the period. We qualitatively assessed and concluded that it was more likely than not that goodwill was impaired as of March 31, 2020. We reviewed our previous forecasts and assumptions based on our updated projections that were subject to various risks and uncertainties, including: (1) forecasted revenues, expenses and cash flows, including the duration and extent of impact to our business and our alliance partners from the COVID-19 pandemic, (2) current discount rates, (3) the reduction in our market capitalization, (4) changes to the regulatory environment and (5) the nature and amount of government support that will be provided. As a result of this qualitative assessment, we concluded that indicators of impairment were present. The subsequent quantitative interim impairment assessment of our goodwill as of March 31, 2020 resulted in recording an impairment of \$10,646 as of March 31, 2020. No additional impairment was recorded during the remainder of 2020, including as a result of our annual assessment completed as of September 30, 2020.

We have not made any material changes in our reporting units or the accounting methodology we used to assess impairment of goodwill since September 30, 2020. The valuation of goodwill is subject to a high degree of judgment, uncertainty and complexity. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

There were no indicators of impairment identified in or recorded for the year ended December 31, 2019.

Income Taxes

Accounting for income taxes requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. These deferred taxes are measured by applying the provisions of tax laws in effect at the balance sheet date, including the impact of the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017.

We recognize in income the effect of a change in tax rates on deferred tax assets and liabilities in the period that includes the enactment date.

As of December 31, 2020, a full valuation allowance is recorded against our deferred tax. The valuation allowance is based, in part, on our estimate of future taxable income, the expected utilization of federal and state tax loss carryforwards, and credits and the expiration dates of such tax loss carryforwards. Significant assumptions are used in developing the analysis of future taxable income for purposes of determining the valuation allowance for deferred tax assets which, in our opinion, are reasonable under the circumstances.

Impact of Recently Issued Accounting Pronouncements

Refer to Note 3 *Recently Issued Accounting Pronouncements* in our Consolidated Financial Statements included in Part II, ITEM 8 of this Report, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein by reference.

Results of Operations

Note: All dollar amounts reported in Results of Operations are in thousands, except per-share information.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The tables presented below compare our results of operations from one period to another, and present the results for each period and the change in those results from one period to another in both dollars and percentage change.

	Year Ended December 31,		Change	
	2020	2019		%
Sales	\$ 17,457	\$ 31,598	\$ (14,141)	-45%
Cost of sales	9,336	17,859	(8,523)	-48%
Gross profit	8,121	13,739	-5,618	-41%
Sales and marketing expenses	1,676	2,344	(668)	-28%
Research and development expenses	1,083	1,413	(330)	-23%
General and administrative expenses	9,293	9,092	201	2%
Depreciation and amortization expense	1,474	1,250	224	18%
Lease termination expense	18	-	18	100%
Loss on disposal of assets	13	-	13	100%
Goodwill impairment	10,646	-	10,646	100%
Earnout liability	-	(250)	250	-100%
Total operating expenses	24,203	13,849	10,354	75%
Operating loss	(16,082)	(110)	(15,959)	14,508%
Other income/(expenses):				
Interest expense	(1,023)	(831)	(192)	23%
Change in fair value of warrant liability	-	21	(21)	-100%
Gain on settlement of debt	209	2,046	(1,837)	-90%
Loss on fair value of debt	(93)	-	(93)	-100%
Other income/(expense)	(13)	5	(18)	-360%
Total other income/(expense)	(920)	1,241	(2,174)	-175%
Net income/(loss) before income taxes	(17,002)	1,131	(18,133)	-1,603%
Income tax benefit/(expense)	158	(93)	251	-270%
Net income/(loss)	(16,844)	\$ 1,038	(17,882)	-1,723%

Sales

Sales decreased by \$14,141, or 45% in 2020 compared to the same period in 2019 driven by reductions in (1) installation services of \$4,962 following a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures as a direct result of the COVID-19 pandemic, (2) software development services of \$8,754 which included nonrecurrence of approximately \$7,937 of 2019 revenue related to software development and licensing arrangements, and (3) management services of \$1,186 related to contracts with customers which were partially or permanently closed during the year. Reductions in year over year core digital signage business were partially offset by \$3,535 of revenue generated from our Safe Space Solutions products and services during the year ended December 31, 2020 following launch of the suite of products at the end of April 2020.

Gross Profit

Gross profit decreased \$5,618 in absolute dollars to \$8,121 in 2020 from \$13,739 in 2019, or 41% driven by reductions in revenue which were partially offset by an increase in gross margin to 46.5% in 2020 from 43.5% in 2019. The increase in gross margin relates to the sales of Safe Space Solutions products and a higher percentage of managed services revenue to consolidated revenue.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses decreased by \$668, or 28%, for the year ended December 31, 2020 as compared to the same period in 2019 driven by a \$662 reduction in personnel costs as the result of reduced headcount and salary reductions in March 2020, combined with reduced spend on trade show activity and related travel costs following the cancellation of several key industry events as a result of the COVID-19 pandemic. We anticipate that our sales and marketing expenses will continue to be significantly lower than those incurred in 2019 as trade shows and industry events planned for throughout 2021 have been suspended, delayed, or completely cancelled. We further anticipate our sales personnel will continue to incur reduced travel costs during the extended pandemic period and utilize virtual meeting technology more commonly moving forward.

Research and Development Expenses

Research and development expenses decreased by \$330, or 23%, for the year ended December 31, 2020 as compared to the same period in 2019 as the result of a reduction in personnel costs during the period following reduced headcount and salary reductions in March 2020.

General and Administrative Expenses

Total general and administrative expenses increased by \$201, or 2%, for the year ended December 31, 2020 as compared to the same period in 2019 from \$9,092 to \$9,293. Personnel costs, including salaries, benefits, and travel-related expenses, decreased by \$1,109 in 2020, partially offset by an increase in stock compensation amortization expense of \$273 related to incremental employee and directors' awards during 2020 which are being amortized over the thirty-six (36) month vesting period based on the grant date fair value calculated using the Black Scholes method. Personnel costs were reduced following completion of a reduction-in-force and salary reductions for remaining personnel in March 2020. The reductions in personnel costs were offset by increases in (1) incremental reserve for bad debts of \$616 primarily driven by a customer bankruptcy, (2) legal and deal costs of approximately \$500 related to our offering process and ongoing litigation efforts discussed in Note 9 *Commitments and Contingencies* to the Consolidated Financial Statements, and (3) insurance costs, including director and officer related coverage which is experiencing significant tightening in the most recent twenty-four months.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by \$224, or 18%, for the year ended December 31, 2020 as compared to the same period in 2019 driven by a combination of an increased intangible asset base and increased capitalized costs related to the continued development of our software products since the acquisition of Allure.

Lease Termination Expense

On December 31, 2020, we exited our office facilities located in Dallas, TX. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$18. There were no such lease terminations during 2019.

Goodwill impairment

See Note 7 *Intangible Assets, Including Goodwill* to the Consolidated Financial Statements for a discussion of the Company's interim impairment test and the non-cash impairment charge recorded.

Gain on Earnout Liability

The Company completed an updated fair value analysis at December 31, 2019 of the contingent consideration earnout liability initially recorded at \$250 in the opening balance sheet at the time of the Allure Acquisition on November 20, 2018. As a result of that analysis, the Company concluded the fair value of the liability was \$0, resulting in a gain of \$250 in 2019.

Interest Expense

See Note 8 *Loans Payable* to the Consolidated Financial Statements for a discussion of the Company's debt and related interest expense obligations.

Change in Fair Value of Warrant Liability

All of the Company's outstanding warrants classified as liabilities expired during 2019. See Note 5 *Fair Value Measurement* to the Consolidated Financial Statements for a discussion of the Company's non-cash change in Warrant Liability.

Gain on Settlement of Obligations

During the year ended December 31, 2020, the Company settled and/or wrote off obligations of \$348 for aggregate cash payments of \$139 and recognized a gain of \$209 related to legacy accounts payable deemed to no longer be legal obligations to vendors.

During the year ended December 31, 2019, the Company settled and/or wrote off obligations of \$3,178 for \$1,132 cash payment and recognized a gain of \$2,046. \$1,619 of this gain related to settlement of legacy sales commissions due to a third party vendor which were settled with a cash payment of \$1,100 during the three-months ended December 31, 2019. The remaining settlements related to legacy accounts payable deemed to no longer be legal obligations to vendors.

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which adjusts for the categories of expenses described below, is a non-GAAP financial measure. Our management believes that this non-GAAP financial measure is useful information for investors, shareholders and other stakeholders of our Company in gauging our results of operations on an ongoing basis. We believe that EBITDA is a performance measure and not a liquidity measure, and therefore a reconciliation between net loss/income and EBITDA and Adjusted EBITDA has been provided. EBITDA should not be considered as an alternative to net loss/income as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of cash flows, in each case as determined in accordance with GAAP, or as a measure of liquidity. In addition, EBITDA does not take into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. We do not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with our Consolidated Financial Statements prepared in accordance with GAAP.

Quarters ended	Year Ended 2020	Quarters Ended			
		December 31, 2020	September 30, 2020	June 30 2020	March 31, 2020
GAAP net loss	\$ (16,844)	\$ (617)	\$ (585)	\$ (2,459)	\$ (13,183)
Interest expense:					
Amortization of debt discount	339	85	85	84	85
Other interest, net	683	186	179	176	142
Depreciation/amortization:					
Amortization of intangible assets	617	139	161	158	159
Amortization of finance lease assets	20	3	5	5	7
Amortization of share-based awards	617	250	248	100	19
Depreciation of property, equipment & software	837	209	212	216	200
Income tax expense/(benefit)	(158)	(6)	(1)	4	(155)
EBITDA	<u>\$ (13,889)</u>	<u>249</u>	<u>\$ 304</u>	<u>\$ (1,716)</u>	<u>\$ (12,726)</u>
Adjustments					
Change in fair value of Special Loan	93	(609)	-	551	151
Gain on settlement of obligations	(209)	(54)	(114)	(1)	(40)
Loss on disposal of assets	13	-	13	-	-
Loss on lease termination	18	18	-	-	-
Loss on goodwill impairment	10,646	-	-	-	10,646
Stock-based compensation – Director grants	102	27	25	19	31
Adjusted EBITDA	<u>\$ (3,226)</u>	<u>(369)</u>	<u>\$ 228</u>	<u>\$ (1,147)</u>	<u>\$ (1,938)</u>

	Year Ended 2019	Quarters ended			
		December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
GAAP net income/(loss)	\$ 1,038	\$ 563	\$ 242	\$ 417	\$ (184)
Interest expense:					
Amortization of debt discount	524	105	105	158	156
Other interest, net	306	109	94	55	48
Depreciation/amortization	1,250	378	278	308	286
Income tax expense/(benefit)	93	128	51	(107)	21
EBITDA	\$ 3,211	\$ 1,283	\$ 770	\$ 831	\$ 327
Adjustments					
Change in warrant liability	(21)	-	-	(22)	1
Gain on settlement of obligations	(2,051)	(1,632)	(406)	(6)	(7)
Gain on earnout liability	(250)	(250)	-	-	-
Stock-based compensation	447	52	62	291	42
Adjusted EBITDA	\$ 1,336	\$ (547)	\$ 426	\$ 1,094	\$ 363

Liquidity and Capital Resources

We produced net income for the year ended December 31, 2019 but incurred a net loss for the year ended December 31, 2020 and have negative cash flows from operating activities for both periods. As of December 31, 2020, we had cash and cash equivalents of \$1,826 and a working capital deficit of \$306.

On January 11, 2021, Creative Realities, Inc. received a notice from Old National Bank regarding forgiveness of the loan in the principal amount of \$1,552 (the "PPP Loan") that was made pursuant to the Small Business Administration Paycheck Protection Program under the Coronavirus Air, Relief and Economic Security Act of 2020. According to such notice, the full principal amount of the PPP Loan and the accrued interest have been forgiven. Accounting for the forgiveness will be recognized in the first quarter of 2021.

On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company's common stock (the "Shares"), in a registered direct offering (the "Offering") at a purchase price of \$2.50 per Share, for gross proceeds of \$2,000. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1,835, which the Company intends to use for general corporate purposes. The closing of the Offering occurred on February 22, 2021.

On March 7, 2021, the Company and Slipstream entered into an agreement to refinance the Company's Loan and Security Agreement, including (1) the extension of all maturity dates therein to March 31, 2023, (2) the conversion of the Disbursed Escrow Promissory Note into equity, (3) access to an additional \$1,000 via a multi-advance line of credit facility, and (4) the removal of the three times liquidation preference with respect to the Company's Secured Convertible Special Loan Promissory Note.

Management believes that, based on (i) the forgiveness of our PPP Loan, (ii) the execution of a registered direct offering and remaining availability for incremental offerings under our previously registered Form S-3, (iii) the refinancing of our debt, including extension of the maturity date on our term and convertible loans, as well as access to incremental borrowings under the new multi-advance line of credit, and (iv) our operational forecast through 2021, we can continue as a going concern through at least March 31, 2022. However, given our net losses, cash used in operating activities and working capital deficit, we obtained a continued support letter from Slipstream through March 31, 2022. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

See Note 8 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company's debt obligations and further discussion of the Company's refinancing activities subsequent to December 31, 2020.

Operating Activities

The cash flows used in operating activities were \$3,530 and \$970 for the years ended December 31, 2020 and 2019, respectively. The majority of the cash consumed by operations for both periods was attributed to our net losses. For the years ended December 31, 2020 and 2019, our net loss was \$17,053 and \$1,008 when adjusted for gain on settlements of obligations, respectively. The cash flows used in operating activities were further driven by the Company's increase in inventory on hand as a result of the launch of our Safe Space Solutions product suite, partially offset by non-cash charges of \$93, \$2,531, and \$10,646 related to (1) fair value of our Special Loan, (2) depreciation and amortization expenses, and (3) impairment charge related to goodwill, respectively, combined with an increase of \$613 in our allowance for doubtful accounts primarily as a result of a customer bankruptcy.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2020 was \$657 as compared to \$687 for the same period in 2019. Uses of cash in the current and prior period relate primarily to internal and external costs associated with software development. We currently do not have any material commitments for capital expenditures as of December 31, 2020, nor do we anticipate any significantly expanding our expenditures for investing in 2021.

Financing Activities

Net cash provided by financing activities during the years ended December 31, 2020 and 2019 was \$3,479 and \$1,473, respectively. The increase was driven by our receipt of a PPP Loan of \$1,552 and proceeds from our at-the-market offering of \$1,832, partially offset by no debt proceeds during the year.

Off-Balance Sheet Arrangements

During the year ended December 31, 2020, we did not engage in any off-balance sheet arrangements set forth in Item 303(a) (4) of Regulation S-K.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements on Page F-1.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act ("Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2020, and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment and those criteria, management believes that we maintained effective internal control over financial reporting as of December 31, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B OTHER INFORMATION

Credit Agreement

On March 7, 2021, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream Communications, LLC (“Slipstream”), pursuant to an Amended and Restated Credit and Security Agreement (the “Credit Agreement”). The debt facilities continue to be fully secured by all assets of the Borrowers. The maturity date (“Maturity Date”) on the outstanding debt and new debt is extended to March 31, 2023. The Credit Agreement (i) provides a \$1,000 of availability under a line of credit (the “Line of Credit”), (ii) consolidates our existing term and revolving line of credit facilities into a new term loan (the “New Term Loan”) having an aggregate principal balance of approximately \$4,550 (including a 3.0% issuance fee capitalized into the principal balance), (iii) increases the outstanding special convertible term loan (the “Convertible Loan”) to approximately \$2,280 (including a 3.0% issuance fee capitalized into the principal balance), and (iv) extinguishes the outstanding obligations owed with respect to a \$264 existing disbursed escrow loan in exchange for shares of the Company’s common stock (the “Disbursed Escrow Conversion Shares”), valued at \$2.718 per share (the trailing 10-day volume weighted average price (“VWAP”)) as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement). The Line of Credit and Convertible Loan accrue interest at 10% per year, and the New Term Loan accrues interest at 8% per year.

The New Term Loan requires no principal payments until the Maturity Date, and interest payments are payable on the first day of each month until the Maturity Date. All interest payments owed prior to October 1, 2021 are payable as PIK payments, or increases to the principal balance only.

The Line of Credit and Convertible Loan require payments of accrued interest payable on the first day of each month through April 1, 2022. All such interest payments made prior to October 1, 2021 are payable as PIK payments, or increases to the principal balances under the Line of Credit and Convertible Loan only. No principal payments are owed under the Line of Credit or Convertible Loan until April 1, 2022, at which time all principal and interest on each of the Line of Credit and Convertible Loan will be paid in monthly installments until the Maturity Date to fully amortize outstanding principal by the Maturity Date.

All payments of interest (other than PIK payments) and principal on the Line of Credit and Convertible Loan may be paid, in the Borrowers’ sole discretion, in shares of the Company’s Common Stock (the “Payment Shares,” and together with the Disbursed Escrow Conversion Shares, the “Shares”). The Payment Shares will be valued on a per-Share basis at 70% of the VWAP of the Company’s shares of common stock as reported on the Nasdaq Capital Market for the 10 trading days immediately prior to the date such payment is due; provided that the Payment Shares shall not be valued below \$0.50 per Share (the “Share Price”).

The Credit Agreement limits the Company’s ability to issue Shares as follows (the “Exchange Limitations”): (1) The total number of Shares that may be issued under the Credit Agreement will be limited to 19.99% of the Company’s outstanding shares of common stock on the date the Credit Agreement is signed (the “Exchange Cap”), unless stockholder approval is obtained to issue shares in excess of the Exchange Cap; (2) if Slipstream and its affiliates (the “Slipstream Group”) beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares and such shares are less than 19.99% of the then-issued and outstanding shares of Company common stock, the issuance of such Payment Shares will not cause the Slipstream Group to beneficially own in excess of 19.99% of the issued and outstanding shares of Company common stock after such issuance unless stockholder approval is obtained for ownership in excess of 19.99%; and (3) if the Slipstream Group does not beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares, the Company may not issue Payment Shares to the extent that such issuance would result in Slipstream Group beneficially owning more than 19.99% of the then issued and outstanding shares of Company common stock unless (A) such ownership would not be the largest ownership position in the Company, or (B) stockholder approval is obtained for ownership in excess of 19.99%.

The Borrowers covenant to, within 30 days of the signing of the Credit Agreement, file a preliminary proxy statement with the SEC to procure an approval of the transactions contemplated herein from its majority stockholders for purposes of complying with Nasdaq Marketplace Rule 5635(b), (c) and (d). The Borrowers will thereafter use their commercially reasonable efforts to file a definitive proxy statement to cause to be held a shareholder meeting for such approval.

The Borrowers will use their reasonable best efforts to have declared effective within 45 days of signing of the Credit Agreement (“Effectiveness Date”) a registration statement on Form S-3 covering the resale of the Disbursed Escrow Conversion Shares and the Payment Shares.

Earnings Release

On March 9, 2021, the Company issued a press release announcing its financial condition and results of operations for the three months and year ended December 31, 2020. A copy of the press release is furnished as Exhibit 99.1 and is incorporated by reference into this Item 9B in lieu of separately furnishing such press release under Item 2.02 of Form 8-K. This disclosure, including Exhibit 99.1 hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

On March 14, 2020, Joseph M. Manko, Jr. resigned as a member of the Company's Board of Directors, effective March 15, 2020. Following the resignation, the Board approved a reduction in the size of the Board of Directors to five directors.

Our Board of Directors consists of Dennis McGill (Chairman), Richard Mills (CEO), David Bell, Donald Harris, and Stephen Nesbit.

The following table sets forth the name and position of each of our current directors and executive officers.

Name	Age	Positions
Dennis McGill	72	Director (Chairman)
David Bell	77	Director
Donald A. Harris	68	Director
Richard Mills	65	Chief Executive Officer and Director
Stephen Nesbit	69	Director
Will Logan	36	Chief Financial Officer

The biographies of the above-identified individuals are set forth below:

Dennis McGill joined our Board of Directors in November 2019. Over the course of a 45-year career, Mr. McGill has served as a director, Chief Executive Officer or Chief Financial Officer of various public and private companies. From June 2015 to October 2017, Mr. McGill served as the President and CEO of ReCommunity Holdings II, Inc., the largest independent recycling processing company in the US, processing over 1.8 million tons of material annually and employing a team of 1,600 members. Mr. McGill served on the Board of Directors for Lighting Science Group Corp. (“LSGC”) from March 2015 to July 2017 while the company was publicly traded. Mr. McGill also served as the LSGC’s Interim Chief Operating Officer from June 2014 to September 2014 and as LSGC’s Interim Chief Financial Officer from July 2014 to December 2014. Mr. McGill joined Pegasus Capital as an operating advisor in December 2014 and remains in that capacity today. Since June 2014, Mr. McGill has also served on the board of directors of DGSE Companies, Inc., a company listed on the NYSE MKT that buys and sells jewelry, diamonds, fine watches, rare coins and currency (“DGSE”). Mr. McGill previously served on the board of directors of DGSE, ReCommunity Holdings, LP and Fiber Composites, LLC and served as the chairman of DGSE’s audit committee. From February 2013 to October 2013, Mr. McGill served as executive vice president and Chief Financial Officer of Heartland Automotive Services, Inc., where he actively participated with the senior management team to develop and roll-out a new business model. From September 2010 to February 2013, Mr. McGill served as executive vice president and Chief Financial Officer of Blockbuster LLC and was responsible for directing and managing various aspects of the Chapter 11 process. From March 2005 to July 2010, Mr. McGill served as executive vice president and Chief Financial Officer of Safety-Kleen Systems, Inc., during which time he led the company’s merger and acquisition efforts and grew the company from \$0 to \$160 million in EBITDA during his tenure. Mr. McGill holds a Bachelor of Science degree in Finance and Accounting and Master of Business Administration degree from the University of California, Berkeley and is a Certified Public Accountant in the state of California.

David Bell joined our Board of Directors in August 2014 in connection with our acquisition of Creative Realities, LLC. Mr. Bell brings over 40 years of advertising and marketing industry experience to the board, including serving as CEO of three of the largest companies in the industry—Bozell Worldwide, True North Communications and The Interpublic Group of Companies, Inc. Since 2007, Mr. Bell has led Slipstream Communications, LLC which is an international company providing strategic branding, digital marketing, and public relations services and served as a Senior Advisor to Google Inc. from 2006 to 2009. Mr. Bell previously served as an Operating Advisor at Pegasus Capital Advisors. He is currently a Senior Advisor to AOL and has also served on the boards of multiple publicly traded companies, including Lighting Science Group Corporation and Point Blank Solutions, Inc., and Primedia, Inc., and served as President and CEO of The Interpublic Group of Companies Inc. from 2003 to 2005. Mr. Bell served as an independent director on the Board of Directors of Time, Inc. from June 2014 to January 2018.

Donald A. Harris was appointed to our Board of Directors in August 2014 in connection with our acquisition of Broadcast International, Inc. He has been President of 1162 Management, and the General Partner of 5 Star Partnership, a private equity firm, since June 2006. Mr. Harris has been President and Chief Executive Officer of UbiquiTel Inc., a telecommunications company organized by Mr. Harris and other investors, since its inception in September 1999 and also its Chairman since May 2000. Mr. Harris served as the President of Comcast Cellular Communications Inc. from March 1992 to March 1997. Mr. Harris received a Bachelor of Science degree from the United States Military Academy and an MBA from Columbia University. Mr. Harris’s experience in the telecommunications industry and his association with private equity funding is valuable to the Company.

Richard Mills is currently our Chief Executive Officer and a member of our Board of Directors. Mr. Mills possesses over 32 years of industry experience. He was previously Chief Executive Officer of ConeXus World Global, a leading digital media services company, which he founded in 2010, and which was acquired by the Company. Prior to founding ConeXus, Mr. Mills was President and Director at Beacon Enterprise Solutions Group, Inc., a public telecom and technology infrastructure services provider. Previous to that, he joined publicly traded Pomeroy Computer Resources, Inc. in 1993 and served as Chief Operating Officer and a member of the Board of Directors from 1995 until 1999. Mr. Mills helped grow sales at Pomeroy during his time there from \$100 million to \$700 million. Mr. Mills was also a founder of Strategic Communications LLC.

Stephen Nesbit has been in the digital signage and digital advertising industry for over 20 years. He is currently the Managing Director of Prestonwood Trail Holdings LLC and has provided advisory services for companies in the Digital Signage and Digital Media Industry for the past 10 years. He has directed and advised projects in North America, Europe, Asia proper, Southeast Asia, the Middle East, Australia and Africa. Prior to founding Prestonwood Trail, Mr. Nesbit was the President/COO at Reflect Systems, a prominent software and services company in the Digital Signage business. He joined Reflect after serving as President/COO of MarketForward, the Global Digital Media Division owned by the Publicis Groupe S.A. in Paris France. Mr. Nesbit began his career in Digital Signage as the EVP Global Operations & GM International Business for Next Generation Network. NGN was one of the first Digital Place Based Advertising companies in the industry before its sale to Anschutz Investments where the company changed its name to National Cinemedia (NASDAQ: NCMI). He began his career at IBM in the Data Processing Division holding various field and HQ management positions. Mr. Nesbit also held management and executive positions at Wang Labs and BBN Communications Inc., the communications company that was the original architect of the Internet. Mr. Nesbit holds an undergraduate degree from the University of Notre Dame and earned an MBA from the Indiana University Kelly Graduate School of Business.

Will Logan joined the Company as VP of Finance in November 2017 and was promoted to the position of Chief Financial Officer effective May 16, 2018. From January 2007 until November 2017, Mr. Logan was employed by Ernst & Young in the assurance services group where he primarily served large public companies, including a two-year international rotation in London, UK in the asset management practice. He brings over ten years of experience in SEC reporting, technical accounting matters and Sarbanes-Oxley compliance expertise as well as expertise in initial public offerings, acquisitions and integration. He has B.A. degrees in Accounting and Economics from Bellarmine University and is a Certified Public Accountant.

Under our corporate bylaws, all of our directors serve for indefinite terms expiring upon the next annual meeting of our shareholders.

When considering whether directors and nominees have the experience, qualifications, attributes and skills to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Board of Directors focuses primarily on the industry and transactional experience, in addition to any unique skills or attributes associated with a director. With regard to Mr. McGill, the Board of Directors considered his background and experience with running and accelerating growth at public companies. With regard to Mr. Bell, the Board considered his deep experience within the advertising and marketing industries and his prior management of large enterprises. With regard to Mr. Mills, the Board of Directors considered his extensive background and experience in the industry. With regard to Mr. Harris, the Board of Directors considered his extensive experience in the telecommunications industry and association with private equity investors. Finally, with regard to Mr. Nesbit, the Board of Directors considered his extensive experience in the digital signage industry, having run several companies in the industry and acted as a consultant broadly for digital signage companies over the past twenty years.

The Board of Directors has determined that there are presently three “independent” directors as such term is defined in Section 5605(a)(2) of the Nasdaq listing rules, each of whom also meets the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The directors whom the board has determined to be independent are Messrs. Bell, Harris, and Nesbit.

The Board of Directors has determined that at least two members of the Board, Mr. McGill and Mr. Bell, qualify as an “audit committee financial expert” as that term is defined in Regulation S-K promulgated under the Securities Exchange Act of 1934. Each of Mr. McGill and Mr. Bell’s relevant experience in this regard is detailed above, which includes past employment experience in finance and through various Director roles at public companies, including experience on the Audit Committee for other publicly traded companies. Mr. Bell is deemed to be independent of the Company. The Board of Directors has determined that each director is able to read and understand fundamental financial statements.

Board Committees

Our Board of Directors has created a standing Compensation Committee and Audit Committee. Messrs. Nesbit, Harris, and Bell serve on the Compensation Committee. Messrs. Bell, Harris and Nesbit serve on the Audit Committee. In the case of the Compensation Committee, Mr. Nesbit serves as chair, and in the case of the Audit Committee, Mr. Bell serves as chair. The Board of Directors has determined that at least one member of the Audit Committee, Mr. Bell, is an “audit committee financial expert” as that term is defined in Regulation S-K promulgated under the Securities Exchange Act of 1934. Mr. Bell’s relevant experience in this regard is detailed above. Mr. Bell, Mr. Harris and Mr. Nesbit qualify as “independent” member of the board as described above. The Board of Directors has determined that each director serving on the Audit Committee is able to read and understand fundamental financial statements.

The Board of Directors has not created a separate committee for nomination or corporate governance. Instead, the entire Board of Directors shares the responsibility of identifying potential director-nominees to serve on the Board of Directors. Nevertheless, nominees to serve as directors on our Board of Directors are selected by those directors on our board who are independent.

Communications with Board Members

Our Board of Directors has provided the following process for shareholders and interested parties to send communications to our board and/or individual directors. All communications should be addressed to Creative Realities, Inc., 13100 Magisterial Drive, Ste. 100, Louisville, KY 40223, Attention: Corporate Secretary. Communications to individual directors may also be made to such director at our company’s address. All communications sent to any individual director will be received directly by such individuals and will not be screened or reviewed by any company personnel. Any communications sent to the board in the care of the Corporate Secretary will be reviewed by the Corporate Secretary to ensure that such communications relate to the business of the company before being reviewed by the board.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions) and directors. Our Code of Business Conduct and Ethics satisfies the requirements of Item 406(b) of Regulation S-K. Our Code of Business Conduct and Ethics is available, free of charge, upon written request to our Corporate Secretary at 13100 Magisterial Drive, Ste. 100, Louisville, KY 40223.

ITEM 11 EXECUTIVE COMPENSATION

Executive Compensation

Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for 2020 and 2019 (*table and footnotes in whole dollars*):

Name and Principal Position (a)	Years	Salary (\$)(b)	Bonus (\$)(c)	Stock Awards (\$)(d)	Option Awards (\$)(e)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Richard Mills	2020	277,962	-	-	897,600	-	-	1,175,562
Chief Executive Officer and Director	2019	330,000	150,000	77,668	-	-	9,481	567,149
Will Logan	2020	209,735	-	-	448,800	-	-	658,535
Chief Financial Officer	2019	189,000	25,000	-	-	-	5,430	219,430

(a) Mr. Mills joined the Company effective October 15, 2015. Mr. Logan joined the Company effective November 2017.

(b) Effective March 19, 2020 and in response to state and local authorities forcing many businesses to temporarily reduce or cease operations to slow the spread of the COVID-19 pandemic, the Company's Board of Directors approved a six-month reduction of the salaries of the Chief Executive Officer and Chief Financial Officer by twenty percent (20%), thereby reducing the salaries payable to such officers in 2020 to \$297,000 and \$224,100, respectively. The salary reductions remain in-force as of the date of this report, resulting in actual salaries to \$277,962 and \$209,735, respectively.

- (c) On November 6, 2019, the Board approved payment of a \$150 cash bonus to Mr. Mills for his significant contributions to the Company’s performance in 2018. \$100 was paid during December 2019 and \$50 was recorded in accrued expenses as of December 31, 2019 and paid in January 2020.
- (d) Represents the grant date fair value based on the Black-Scholes value determined as of September 20, 2018, the grant dates.
- (e) There were two tranches of stock options issued to Mr. Mills and Mr. Logan during the year. 50% of the stock options awarded become exercisable in increments of 33 percent of the total shares purchasable under this issuance on June 1 annually, beginning in 2021 and ending in 2023. The fair value of the options on the grant date was \$1.87 and was determined using the Black-Scholes model. The values included in the table above represent the number of shares awarded to Mr. Mills (480,000) and Mr. Logan (240,000) multiplied by the grant date fair value of the awards as of the grant date. These calculations exclude any value associated with an equal number of performance restricted stock options issued to both Mr. Mills and Mr. Logan which become exercisable in increments of 33 percent of the total shares purchasable under this issuance on June 1 annually, beginning in 2021 and ending in 2023, subject to satisfying the Company revenue target and earnings before interest, taxes, depreciation and amortization (“EBITDA”) target for the applicable year. In each of calendar years 2020, 2021 and 2022, one-third of the total shares may vest (if the revenue and EBITDA targets are met), and the shares that are subject to vesting each year are allocated equally to each of the revenue and EBITDA targets for such year. These performance options include a catch-up provision, where any options that did not vest during a prior year due to the Company’s failure to meet a prior revenue or EBITDA target may vest in a subsequent vesting year if the revenue or EBITDA target, as applicable, is met in the future year. No value was associated with these awards as of the grant date as the performance metrics had not been deemed to be achieved. The revenue and EBITDA targets for the following years are as follows:

Calendar Year	Revenue Target	EBITDA Target
2020	\$32 million	\$2.2 million
2021	\$35 million	\$3.1 million
2022	\$38 million	\$3.5 million

In addition to the employee stock option plan approved by the Board of Directors in May 2020, the Board of Directors also approved an employee bonus plan pursuant to which certain officers and other employees of the Company would be granted incentive compensation in the form of cash bonuses. In each of the calendar years 2020, 2021 and 2022, Mr. Mills was provided a target bonus of \$165, or 50% of his base salary, and Mr. Logan was provided a target bonus of \$62, or 25% of his base salary, subject to satisfying the same Company revenue and EBITDA targets for the applicable year on which vesting of performance-based share compensation were set. The Company targets for calendar year 2020 were not met and there was no impact on the Company’s financial statements of those awards during 2020.

The material terms of employment agreements and payments to be made upon a change in control are discussed below, in the narrative following “Employment Agreements.”

Our named executive officers are eligible for retirement benefits on the same terms as non-executives under the Company’s defined contribution 401(k) retirement plan. Employees may contribute pretax compensation to the plan in accordance with current maximum contribution levels proscribed by the Internal Revenue Service. Beginning on April 1, 2018 but suspended indefinitely as of March 19, 2020, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%.

Richard Mills Employment Agreement

We employ Richard Mills as our Chief Executive Officer. Mr. Mills' employment agreement was initially effective for a two-year term, which automatically renews for additional one-year periods unless either we or Mr. Mills elects not to extend the term. The agreement provided for an initial annual base salary of \$270 subject to annual increases but generally not subject to decreases. Mr. Mills' current annual base salary is \$330, but since March 19, 2020 has been reduced by twenty percent (20%) as a result of actions implemented by the Company's Board of Directors in response to the COVID-19 pandemic. Under the agreement, Mr. Mills is eligible to participate in performance-based cash bonus or equity award plans for our senior executives. Mr. Mills will participate in our employee benefit plans, policies, programs, perquisites and arrangements to the extent he meets applicable eligibility requirements. In the event of a termination of employment for good reason, as defined, without cause, as defined, or within 12 months following a change in control, as defined, other than for reason of death, disability or for cause, any of which occur during the first year of Mr. Mills' employment, Mr. Mills will be entitled to receive a severance payment equal to six months of his base salary. After the one-year anniversary of his employment (the current term of Mr. Mills' employment is beyond the one-year anniversary), the severance amount increases to 12 months of then-current base salary. The agreement provides that any severance payments would be paid in installments over the course of the severance. The agreement contains certain non-solicitation and non-competition provisions that continue after employment for a period of one year. The agreement also contains other customary restrictive and other covenants relating to the confidentiality of information, the ownership of inventions and other matters.

Will Logan Employment Arrangement

Will Logan, the Company's Chief Financial Officer, has an at-will employment arrangement with the Company. Mr. Logan's current annual base salary is \$249, but since March 19, 2020 has been reduced by twenty percent (20%) as a result of actions implemented by the Company's Board of Directors in response to the COVID-19 pandemic. Mr. Logan participates in our employee benefit plans, policies, programs, perquisites and arrangements to the extent he meets applicable eligibility requirements, and also received the stock options discussed under "Outstanding Equity Awards at Fiscal Year-End" below.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information concerning outstanding stock options and restricted stock awards held by our named executive officers as of December 31, 2020:

Name	Option Awards (a)				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Non-Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that has not vested (#)	Market value of shares or units of stock that have not vested (\$)
Richard Mills	-(c)	480,000(a)	\$ 2.53	6/1/2030	-	-
	-(d)	480,000(b)	\$ 2.53	6/1/2030	-	-
Will Logan	14,375(a)	4,792(c)	\$ 8.70	11/6/2027	-	-
	8,334(b)	8,333(d)	\$ 7.50	9/20/2028	-	-
	-(c)	240,000(a)	\$ 2.53	6/1/2030	-	-
	-(d)	240,000(b)	\$ 2.53	6/1/2030	-	-

(a) These stock options become exercisable in increments of 33 percent of the total shares purchasable under this issuance on June 1 annually, beginning in 2021 and ending in 2023.

- (b) These stock options become exercisable in increments of 33 percent of the total shares purchasable under this issuance on June 1 annually, beginning in 2021 and ending in 2023, subject to satisfying the Company revenue target and earnings before interest, taxes, depreciation and amortization (“EBITDA”) target for the applicable year. In each of calendar years 2020, 2021 and 2022, one-third of the total shares may vest (if the revenue and EBITDA targets are met), and the shares that are subject to vesting each year are allocated equally to each of the revenue and EBITDA targets for such year. These performance options include a catch-up provision, where any options that did not vest during a prior year due to the Company’s failure to meet a prior revenue or EBITDA target may vest in a subsequent vesting year if the revenue or EBITDA target, as applicable, is met in the future year. The revenue and EBITDA targets for the following years are as follows:

Calendar Year	Revenue Target	EBITDA Target
2020	\$32 million	\$2.2 million
2021	\$35 million	\$3.1 million
2022	\$38 million	\$3.5 million

- (c) These stock options become exercisable in increments of 25 percent of the total shares purchasable under this issuance on November 6 annually, beginning in 2018 and ending in 2021.
- (d) These stock options become exercisable in increments of 25 percent of the total shares purchasable under this issuance on September 20 annually, beginning in 2019 and ending in 2020.

Director Compensation

On March 13, 2019, the Company’s Board of Directors approved a plan to compensate non-officer directors for their service to the Company in the amount of \$25 per year, beginning April 1, 2019, to be issued in either cash or restricted stock vesting immediately upon issuance. Shares of restricted stock are to be issued quarterly in arrears for service the preceding quarter for a value of \$6 per director, with the number of shares issued based on the most recent close price of the Company’s common stock at the end of the previous calendar quarter.

During 2020, non-employee directors were issued a total of 20,997 shares, with the exception of Mr. Manko, who was issued a total of 4,085 shares for his service for the three months ended March 31, 2020 prior to his exit from the Board. During 2019, non-employee directors were issued a total of 31,760 shares. The table below sets forth the compensation paid to our non-employee directors during 2020:

Director Compensation (table and footnotes in whole dollars)

Name	Fees earned or paid in cash (\$)	Stock awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Dennis McGill	–	26,051 ⁽²⁾	–	–	–	55,000 ⁽⁴⁾	81,051
David Bell	–	26,051 ⁽²⁾	–	–	–	–	26,051
Donald A. Harris	–	26,051 ⁽²⁾	–	–	–	–	26,051
Joseph Manko Jr. ⁽¹⁾	–	7,108 ⁽²⁾	–	–	–	–	7,108
Stephen Nesbit	–	26,051 ⁽²⁾	–	–	–	–	26,051

- (1) Mr. Manko resigned from the Board of Directors effective March 15, 2020.
- (2) Each director was awarded shares for service having an aggregate value of \$6,250 on a quarterly basis in arrears for services completed during the immediately preceding quarter. Value represents the share aggregate value of shares issued on the date of issuance.
- (4) Under a Consulting Agreement (described below), Mr. McGill receives compensation of \$5,000 per month.

Consulting Agreement

On November 7, 2019, the Company and Dennis McGill executed a Consulting Agreement (the “Consulting Agreement”). The term of the Consulting Agreement was one year, and it automatically renews for successive one-year periods. Either party may terminate the Consulting Agreement at any time upon 30 days’ written notice. Under the Consulting Agreement, Mr. McGill will receive compensation of \$5 per month in cash in exchange for general business and strategy consulting services to the Company.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the number of common shares, and percentage of outstanding common shares, beneficially owned as of March 8, 2021, by:

- each person known by us to be the beneficial owner of more than five percent of our outstanding common stock
- each current director
- each executive officer of the Company and other persons identified as a named executive in this Annual Report on Form 10-K, and
- all current executive officers and directors as a group.

Unless otherwise indicated, the address of each of the following persons is 13100 Magisterial Drive, Suite 100, Louisville, KY 40223, and each such person has sole voting and investment power with respect to the shares set forth opposite his, her or its name.

Name and Address	Common Shares Beneficially Owned ^[1]	Percentage of Common Shares ^[1]
Slipstream Funding, LLC ^[2] c/o Pegasus Capital Advisors, L.P. 750 E Main St., Suite 600 Stamford, CT 06902	952,365	7.44%
Slipstream Communications, LLC ^[3] c/o Pegasus Capital Advisors, L.P. 750 E Main St., Suite 600 Stamford, CT 06902	6,726,350	36.23%
Stephen Nesbit ^[4]	32,194	*
Donald A. Harris ^[5]	140,141	1.17%
Dennis McGill ^[6]	34,175	*
David Bell ^[7]	32,194	*
Richard Mills ^[8]	756,904	6.01%
Will Logan ^[9]	28,777	*
All current executive officers and directors as a group ^[10]	1,024,385	7.96%

* less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC, and includes general voting power and/or investment power with respect to securities. Shares of common stock issuable upon exercise of options or warrants that are currently exercisable or exercisable within 60 days of the record date, and shares of common stock issuable upon conversion of other securities currently convertible or convertible within 60 days, are deemed outstanding for computing the beneficial ownership percentage of the person holding such securities but are not deemed outstanding for computing the beneficial ownership percentage of any other person. Under applicable SEC rules, each person's beneficial ownership is calculated by dividing the total number of shares with respect to which they possess beneficial ownership by the total number of outstanding shares of the Company. In any case where an individual has beneficial ownership over securities that are not outstanding, but are issuable upon the exercise of options or warrants or similar rights within the next 60 days, that same number of shares is added to the denominator in the calculation described above. Because the calculation of each person's beneficial ownership set forth in the "Percentage of Common Shares" column of the table may include shares that are not presently outstanding, the sum total of the percentages set forth in such column may exceed 100%.

- (2) Investment and voting power over shares held by Slipstream Funding, LLC is held by Slipstream Communications, LLC, its sole member, and may be deemed to be directly or indirectly controlled by Craig Cogut, Chairman and Chief Executive Officer of Pegasus Capital Advisors, LLC. See table footnote 3 for further information regarding Slipstream Communications, LLC.
- (3) Investment and voting power over shares held by Slipstream Communications, LLC may be deemed to be directly or indirectly controlled by Craig Cogut, Chairman and Chief Executive Officer of Pegasus Capital Advisors, LLC. Slipstream Communications, LLC (“Slipstream Communications”) is the sole member of Slipstream Funding, LLC (“Slipstream Funding”). BCOM Holdings, LP (“BCOM Holdings”) is the managing member of Slipstream Communications. BCOM GP LLC (“BCOM GP”) is the general partner of BCOM Holdings. Business Services Holdings, LLC (“Business Services Holdings”) is the sole member of BCOM GP. PP IV BSH, LLC (“PP IV BSH”), Pegasus Investors IV, L.P. (“Pegasus Investors”) and Pegasus Partners IV (AIV), L.P. (“Pegasus Partners (AIV)”) are the members of Business Services Holdings. Pegasus Partners IV, L.P. (“Pegasus Partners”) is the sole member of PP IV BSH. Pegasus Investors IV, L.P. (“Pegasus Investors”) is the general partner of each of Pegasus Partners (AIV) and Pegasus Partners and Pegasus Investors IV GP, L.L.C. (“Pegasus Investors GP”) is the general partner of Pegasus Investors. Pegasus Investors GP is wholly owned by Pegasus Capital, LLC (“Pegasus Capital”). Pegasus Capital may be deemed to be directly or indirectly controlled by Craig Cogut. The share figure includes the 952,365 shares of common stock issued to and held by Slipstream Funding, LLC in connection with the merger transaction with Creative Realities, LLC. Share figure also includes 2,449,897 common shares purchasable upon exercise of outstanding warrants issued to and held by Slipstream Communications, LLC.
- (4) Mr. Nesbit is a director of the Company.
- (5) Mr. Harris is a director of the Company. Share figure includes 21,035 shares purchasable upon the exercise of outstanding warrants.
- (6) Mr. McGill is a director of the Company and Chairman of the Board. Share figured includes 8,333 shares purchasable upon the exercise of outstanding options.
- (7) Mr. Bell is a director of the Company.
- (8) Mr. Mills is a director of the Company and Chief Executive Officer.
- (9) Mr. Logan is the Chief Financial Officer of the Company. Share figured includes 22,709 shares purchasable upon the exercise of outstanding options.
- (10) Includes Messrs. McGill, Mills, Bell, Harris, Nesbit and Logan.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth certain information, as of the close of business on December 31, 2020, regarding equity compensation plans (including individual compensation arrangements) under which our securities were then authorized for issuance.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (excluding securities reflected in column a)
Equity compensation plans approved by stockholders	None ⁽¹⁾	N/A	None
Equity compensation plans not approved by stockholders	2,613,809 ⁽¹⁾	\$ 3.19	3,398,326 ⁽²⁾

(1) All shares reflected in the table are issuable upon exercise of outstanding stock options issued under the 2006 Amended and Restated Equity Incentive Plan or the 2014 Stock Incentive Plan.

(2) Reflects number of securities remaining available for issuance under the 2014 Stock Incentive Plan.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Slipstream Financings

On August 17, 2016, the Company and its subsidiaries (collectively, the “Borrowers”) entered into a Loan and Security Agreement (the “Loan and Security Agreement”) with Slipstream. As of March 8, 2021, Slipstream is the holder of 83.5% of our outstanding debt instruments including a term loan, secured revolving promissory note, and secured special promissory note and has beneficial ownership of approximately 36.1% of our common stock (on an as-converted, fully diluted basis including conversion of outstanding warrants, and assuming no other convertible securities, options and warrants are converted or exercised by other parties).

On November 6, 2019, Slipstream extended the maturity date of the Term Loan and revolver loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of the Term Loan and Secured Revolving Promissory Note with the Secured Disbursed Escrow Promissory Note.

On December 30, 2019, we entered into the Special Loan as part of the Seventh Amendment under which we obtained \$2,000, with interest thereon at 8% per annum payable 6% in cash and 2% via the issuance of SLPIK interest, provided however that upon occurrence of an event of default the interest rate shall automatically be increased by 6% per annum payable in cash. The entry into the Seventh Amendment adjusted the interest rate on the Term Loan and Revolving Loan to 8% per annum, provided, however, at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan exceeds \$4,100 then the Loan Rate shall be 10%, of which eight percent 8% shall be payable in cash and 2% shall be paid by the issuance of and treated as additional PIK.

Upon the earlier to occur of an Event of Default or October 1, 2020, if any of the principal amount of the Special Loan is then outstanding, the principal and accrued but unpaid interest of the Special Loan and the outstanding SLPIK shall be automatically converted into shares of a new series of Senior Convertible Preferred Stock of the Company (“New Preferred”) having an Appraised Value equal to three times the then outstanding principal amount and accrued but unpaid interest of the Special Loan and the outstanding SLPIK and having the following terms and conditions, as reasonably determined by the Company and Slipstream, the New Preferred shall:

- be the most senior equity security of the Company, including with respect to the payment of dividends and other distributions;
- be on substantially the same terms and conditions as the Company’s Series A-1 6% Convertible Preferred Stock as set forth in its Certificate of Designation immediately before the same was cancelled pursuant to a Certificate of Cancellation dated as of March 13, 2019;
- not be subject to a right of redemption upon the part of a holder thereof;
- accrue and pay quarterly dividends at the rate of twelve percent (12%) per annum which shall be payable in cash;
- have a Stated Value that is an amount mutually agreed by the Company and Slipstream at the time of issuance;
- Conversion Price shall be an amount equal to 80% of the average for the 30-day period ending two days prior to the required conversion date of the daily average of the range of the Company’s common stock (calculated pursuant to information on The Wall Street Journal Online Edition), subject to appropriate adjustments; and
- neither section 6(e) of the Series A-1 Certificate of Designation nor any similar provision shall apply to the New Preferred.

On April 1, 2020, we entered into an Eighth Amendment to Loan and Security Agreement (the “Eighth Amendment”) with Slipstream to amend the terms of the payments and interest accruing on the Term Loan, Secured Revolving Promissory Note, and Special Loan. The Eighth Amendment increased the interest rates of these loans from 8% to 10%, effective April 1, 2020. Until January 1, 2021, rather than cash payments of accrued interest under the term and revolving loans, interest will be paid by the issuance of and treated as additional principal thereunder. Commencing January 2, 2021, such interest will be payable in cash. Interest on the special loan will no longer be paid in cash, but by the issuance of and treated as additional principal thereunder.

On February 28, 2021, January 31, 2021, December 31, 2020, November 30, 2020, and September 29, 2020, the Company entered into several amendments to Loan and Security Agreement with its subsidiaries and Slipstream to amend the automatic conversion date of the Special Loan. Each amendment extended the automatic conversion date of the Special Loan into the defined new class of senior preferred stock of the Company, which was ultimately Amended and Restated in full on March 7, 2021 as discussed further above. The Company paid no fees in exchange for these extensions.

On March 7, 2021, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream Communications, LLC (“Slipstream”), pursuant to an Amended and Restated Credit and Security Agreement (the “Credit Agreement”). The debt facilities continue to be fully secured by all assets of the Borrowers. The maturity date (“Maturity Date”) on the outstanding debt and new debt is extended to March 31, 2023. The Credit Agreement (i) provides a \$1,000 of availability under a line of credit (the “Line of Credit”), (ii) consolidates our existing term and revolving line of credit facilities into a new term loan (the “New Term Loan”) having an aggregate principal balance of approximately \$4,550 (including a 3.0% issuance fee capitalized into the principal balance), (iii) increases the outstanding special convertible term loan (the “Convertible Loan”) to approximately \$2,280 (including a 3.0% issuance fee capitalized into the principal balance), and (iv) extinguishes the outstanding obligations owed with respect to a \$264 existing disbursed escrow loan in exchange for shares of the Company’s common stock (the “Disbursed Escrow Conversion Shares”), valued at \$2.718 per share (the trailing 10-day VWAP as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement). The Line of Credit and Convertible Loan accrue interest at 10% per year, and the New Term Loan accrues interest at 8% per year. See Note 8 *Loans Payable* for additional information with respect to the Credit Agreement.

33 Degrees

On August 14, 2018, we entered into a payment agreement with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management (“33 Degrees”), outlining terms for repayment of \$2,567 of aged accounts receivable as of that date. The payment agreement stipulated a simple interest rate of 12% on aged accounts receivable to be paid on the tenth day of each month through the maturity date of December 31, 2019. As of December 31, 2019, 33 Degrees paid the note in full and had a remaining outstanding accounts receivable balance of \$1 in the Consolidated Financial Statements. 33 Degrees has continued to purchase additional hardware and services from the Company on a prepaid basis.

For the years ended December 31, 2020 and 2019, we had sales of \$1,058 (6.1% of consolidated sales) and \$1,103 (3.5% of consolidated sales), respectively, with 33 Degrees. Accounts receivable due from 33 Degrees was \$40, or 1.2%, and \$1, or 0% of consolidated accounts receivable at December 31, 2020 and December 31, 2019, respectively.

Each of the foregoing transactions were approved by our Board of Directors after full disclosure of any conflicts of interest. Any directors that had a conflicting interest in the transactions abstained from approving such matter.

Independence

The Company does not have a standing nominating committee. Instead, the entire Board of Directors shares the responsibility of identifying potential director-nominees to serve on the Board of Directors. The Board believes the engagement of all directors in this function is important at this time in the Company's development in light of the Company's recent acquisition activities.

The Board of Directors has determined that there are presently four "independent" directors as such term is defined in Section 5605(a)(2) of the Nasdaq listing rules, each of whom also meets the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The directors whom the board has determined to be independent are Messrs. Bell, Harris, and Nesbit.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

(All currency is rounded to the nearest thousands, except share and per share amounts.)

The following table presents fees for audit and other services provided by Deloitte and Touche LLP for 2020 and by EisnerAmper LLP for 2019. Fees for tax services were provided by Ernst & Young, LLP beginning in the second quarter of 2018 and were provided by Eichen & Dimeglio, CPAs, PC in the first quarter of 2018. Fees to EisnerAmper LLP were as follows:

	<u>2020</u>	<u>2019</u>
Audit fees (a)	\$ 336	\$ 210
Audit related fees (b)	-	-
Tax fees (c)	-	-
	<u>\$ 336</u>	<u>\$ 210</u>

- (a) Audit fees for 2020 and 2019 relate to professional services provided in connection with the audit of our consolidated financial statements, the reviews of our quarterly condensed consolidated financial statements, services provided in connection with filing Form S-3 and audit services provided in connection with other regulatory filings.
- (b) There were no audit-related fees.
- (c) There were no tax fees paid to Deloitte and Touche LLP or EisnerAmper LLP. Tax fees to other service providers consisted of the aggregate fees billed for tax compliance, tax advice, and tax planning of \$105 and \$32 for 2020 and 2019, respectively.

Our Board of Directors pre-approved the audit services rendered by Deloitte and Touche LLP and EisnerAmper, LLP during 2020 and 2019, respectively, and concluded that such services were compatible with maintaining the auditor's independence.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) See “Index to Consolidated Financial Statements” on page F-1 and “Exhibit Index” on page E-1.
- (b) See “Exhibit Index” on page E-1.
- (c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Louisville, State of Kentucky, on March 9, 2021.

Creative Realities, Inc.

By /s/ Richard Mills
Richard Mills
Chief Executive Officer

By /s/ Will Logan
Will Logan
Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant, and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Richard Mills</u> Richard Mills	Chief Executive Officer and Director	March 9, 2021
<u>/s/ Will Logan</u> Will Logan	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 9, 2021
<u>/s/ Dennis McGill</u> Dennis McGill	Chairman of the Board of Directors	March 9, 2021
<u>/s/ David Bell</u> David Bell	Director	March 9, 2021
<u>/s/ Donald Harris</u> Donald Harris	Director	March 9, 2021
<u>/s/ Steve Nesbit</u> Steve Nesbit	Director	March 9, 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Creative Realities, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Creative Realities, Inc. and subsidiaries (the “Company”) as of December 31, 2020 and the related consolidated statements of operations, shareholders’ equity, and cash flows, for the year ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill – Refer to Note 7 to the Financial Statements

Critical Audit Matter Description

The Company operates as a single reportable segment, operating segment and reporting unit. The Company’s evaluation of goodwill for impairment involves comparing the book value of the reporting unit to its estimated fair value. The Company’s determination of estimated fair value of the reporting unit is based primarily on a discounted cash flow model utilizing the income approach. The Company used the discounted cash flow model to estimate fair value which requires management to make significant estimates and assumptions related to the valuation of the reporting unit, including assumptions regarding discount rates, forecasts of future revenue and operating margins, and the long-term growth rate. Changes in these assumptions could have a significant impact on either the fair value of the reporting unit, the amount of any goodwill impairment charge, or both. During the quarter ended March 31, 2020, management identified indicators of potential impairment of goodwill related to the impact of the COVID-19 pandemic on the Company’s business. As a result, management performed an interim assessment of potential impairment. Consequently, the Company recorded an impairment charge of approximately \$10.6 million during the quarter ended March 31, 2020, reducing the recorded goodwill balance to approximately \$7.5 million. The Company’s annual impairment assessment date is September 30. Accordingly, management performed an additional impairment assessment as of September 30, 2020. The estimated fair value of the reporting unit exceeded the carrying value as of September 30, 2020 and, therefore, no additional impairment was recognized.

We identified the valuation of goodwill as a critical audit matter because of the significant estimates and assumptions management made to estimate the fair value of the reporting unit and the highly sensitive nature of Company's operations to changes in demand. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the forecasts of future revenues and operating margins, and the selection of the long-term growth rate and discount rate for the reporting unit included the following, among others:

- For both the March 31, 2020 interim assessment and the September 30, 2020 annual assessment, we evaluated the reasonableness of management's forecasts of revenue and operating margins by comparing the forecasts to (1) historical revenues and operating margins, (2) internal communications to management and the Board of Directors, and (3) forecasted information included in analyst reports for the industry and certain of its peer companies.
- Specifically, for the September 30, 2020 annual impairment assessment, we compared the Company's actual performance to the forecasted revenue and operating margin from the March 31, 2020 interim assessment and evaluated the impact of any changes in management's forecast from the March to September assessments.
- We evaluated the impact of any changes in management's forecasted revenue and operating margin from the September 30, 2020 annual assessment to the December 31, 2020 balance sheet date.
- We evaluated the reasonableness of the long-term growth rate used in the discounted cash flow model by comparing the information used by the Company to third party economic and industry related information.
- We evaluated the reasonableness of the discounted cash flow valuation methodology.
- With the assistance of our fair value specialists:
 - We evaluated the discounted cash flow model and performed underlying procedures on the mathematical accuracy of the calculations.
 - We evaluated the reasonableness of the discount rate used in the discounted cash flow model by testing the underlying source information, developing an independent range of estimated discount rates and comparing that range to the discount rate selected by the Company.

/s/ Deloitte & Touche LLP
Louisville, Kentucky
March 9, 2021

We have served as the Company's auditor since 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Creative Realities, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Creative Realities, Inc. and Subsidiaries (the “Company”) as of December 31, 2019, and the related consolidated statements of operations, shareholders’ equity, and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EisnerAmper LLP

We served as the Company’s auditor from 2015 to 2020.

EISNERAMPER LLP
Iselin, New Jersey
March 12, 2020

CREATIVE REALITIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

ASSETS	December 31, 2020	December 31, 2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,826	\$ 2,534
Accounts receivable, net of allowance for doubtful accounts of \$1,230 and \$617, respectively	2,302	4,663
Unbilled receivables	41	86
Work-in-process and inventories, net	2,351	379
Prepays and other current assets	507	320
Total current assets	<u>7,027</u>	<u>7,982</u>
Operating lease right-of-use assets	931	1,728
Property and equipment, net	1,340	1,553
Intangibles, net	3,790	4,407
Goodwill	7,525	18,171
Other assets	5	135
TOTAL ASSETS	<u><u>\$ 20,618</u></u>	<u><u>\$ 33,976</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term seller note payable	\$ 1,637	\$ 1,637
Short-term related party convertible loans payable, at fair value	-	2,000
Accounts payable	1,661	1,849
Accrued expenses	2,142	2,751
Deferred revenues	764	772
Customer deposits	770	755
Current maturities of operating leases	355	646
Current maturities of financing leases	4	21
Total current liabilities	<u>7,333</u>	<u>10,431</u>
Long-term Payroll Protection Program note payable	1,552	-
Long-term related party loans payable, net of \$168 and \$507 discount, respectively	4,436	3,757
Long-term related party convertible loans payable, at fair value	2,270	-
Long-term obligations under operating leases	584	1,100
Long-term obligations under financing leases	-	5
Long-term accrued expenses	108	-
Deferred tax liabilities	-	175
TOTAL LIABILITIES	<u>16,283</u>	<u>15,648</u>
SHAREHOLDERS' EQUITY		
Common stock, \$0.01 par value, 200,000 shares authorized; 10,924 and 9,775 shares issued and outstanding, respectively	109	98
Additional paid-in capital	56,712	54,052
Accumulated deficit	(52,486)	(35,642)
Total shareholders' equity	<u>4,335</u>	<u>18,508</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 20,618</u></u>	<u><u>\$ 33,976</u></u>

See accompanying Notes to Consolidated Financial Statements.

CREATIVE REALITIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Years Ended December 31,	
	2020	2019
Sales		
Hardware	\$ 8,991	\$ 8,229
Services and other	8,466	23,369
Total sales	<u>17,457</u>	<u>31,598</u>
Cost of sales		
Hardware	6,251	6,245
Services and other	3,085	11,614
Total cost of sales	<u>9,336</u>	<u>17,859</u>
Gross profit	8,121	13,739
Operating expenses:		
Sales and marketing	1,676	2,344
Research and development	1,083	1,413
General and administrative	9,293	9,092
Depreciation and amortization	1,474	1,250
Lease termination expense	18	-
Goodwill impairment	10,646	-
Loss on disposal of fixed assets	13	-
Gain on reversal of earnout liability	-	(250)
Total operating expenses	<u>24,203</u>	<u>13,849</u>
Operating loss	(16,082)	(110)
Other income/(expenses):		
Interest expense, including amortization of debt discount	(1,023)	(831)
Change in fair value of warrant liability	-	21
Gain on settlement of obligations	209	2,046
Loss on fair value of debt	(93)	-
Other income/(expense), net	(13)	5
Total other income/(expense)	<u>(920)</u>	<u>1,241</u>
Net income/(loss) before income taxes	(17,002)	1,131
Income tax benefit/(expense)	158	(93)
Net income/(loss)	<u>(16,844)</u>	<u>1,038</u>
Net income/(loss) per common share - basic	\$ (1.65)	\$ 0.11
Net income/(loss) per common share - diluted	<u>\$ (1.65)</u>	<u>\$ 0.11</u>
Weighted average shares outstanding - basic	<u>10,195</u>	<u>9,748</u>
Weighted average shares outstanding - diluted	<u>10,195</u>	<u>9,759</u>

See accompanying Notes to Consolidated Financial Statements.

CREATIVE REALITIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2020 and 2019
(in thousands, except shares)

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Year ended December 31, 2020</i>					
Balance as of December 31, 2019	9,774,546	98	54,052	(35,642)	18,508
Shares issued to directors as compensation	88,073	1	99	-	100
Stock-based compensation	-	-	620	-	620
Shares issued via at-the-market offering	1,034,068	10	1,821	-	1,831
Exercise of warrants	27,600	-	120	-	120
Net loss	-	-	-	(16,844)	(16,844)
Balance as of December 31, 2020	<u>10,924,287</u>	<u>\$ 109</u>	<u>\$ 56,712</u>	<u>\$ (52,486)</u>	<u>\$ 4,335</u>

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Year ended December 31, 2019</i>					
Balance as of December 31, 2018	9,724,826	\$ 97	\$ 53,575	\$ (36,851)	\$ 16,821
Adjustment due to adoption of ASU 2016-02	-	-	-	171	171
Vesting of performance shares previously granted to CEO	-	-	250	-	250
Shares issued for services	17,960	-	30	-	30
Shares issued to directors as compensation	31,760	1	62	-	63
Stock-based compensation	-	-	135	-	135
Net income	-	-	-	1,038	1,038
Balance as of December 31, 2019	<u>9,774,546</u>	<u>\$ 98</u>	<u>\$ 54,052</u>	<u>\$ (35,642)</u>	<u>\$ 18,508</u>

See accompanying Notes to Consolidated Financial Statements.

CREATIVE REALITIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share per share amounts)

	For the Years Ended December 31,	
	2020	2019
Operating Activities:		
Net (loss)/income	\$ (16,844)	\$ 1,038
Adjustments to reconcile net income/(loss) to be used in operating activities:		
Depreciation and amortization	1,474	1,217
Amortization of debt discount	339	524
Stock-based compensation	719	448
Shares issued for services	-	30
Change in warrant liability	-	(21)
Allowance for doubtful accounts	613	253
Non-cash interest expense on related party loans	517	-
Deferred tax (benefit)/expense	(175)	47
Gain on obligation settlement	(209)	(2,046)
Loss on disposal of assets	13	-
Loss on fair value of debt	93	-
Goodwill impairment	10,646	-
Gain on reversal of earnout liability	-	(250)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled receivables	1,793	2,319
Inventories	(1,972)	-
Prepaid expenses and other current assets	(187)	1,260
Other assets	130	44
Operating lease right of use asset, net	149	535
Accounts payable and other current payables	3	284
Deferred revenue	(8)	(5,682)
Accrued expenses, net	(502)	1,474
Customer deposits	15	(1,924)
Operating lease liabilities, net	(139)	(517)
Other, net	2	(3)
Net cash used in operating activities	(3,530)	(970)
Investing activities		
Proceeds from net working capital settlement	-	210
Purchases/additions of property and equipment and software development	(657)	(897)
Net cash used in investing activities	(657)	(687)
Financing activities		
Proceeds from common stock issuance, net of issuance costs	1,831	-
Proceeds from related party loans	-	2,000
Proceeds from Payroll Protection Program loan	1,552	-
Principal payments on finance leases	(24)	(31)
Repayment of seller note	-	(498)
Proceeds from warrant exercise into common stock	120	-
Other financing activities, net	-	2
Net cash provided by financing activities	3,479	1,473
Decrease in Cash and Cash Equivalents	(708)	(184)
Cash and Cash Equivalents, beginning of year	2,534	2,718
Cash and Cash Equivalents, end of year	\$ 1,826	\$ 2,534

See accompanying Notes to Consolidated Financial Statements.

CREATIVE REALITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

All currency is rounded to the nearest thousands except share and per share amounts

NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS

Unless the context otherwise indicates, references in these Notes to the accompanying Consolidated Financial Statements to “we,” “us,” “our” and “the Company” refer to Creative Realities, Inc. and its subsidiaries.

Nature of the Company’s Business

Creative Realities, Inc. is a Minnesota corporation that provides innovative digital marketing technology and solutions to retail companies, individual retail brands, enterprises and organizations throughout the United States and in certain international markets. The Company has expertise in a broad range of existing and emerging digital marketing technologies, as well as the related media management and distribution software platforms and networks, device management, product management, customized software service layers, systems, experiences, workflows, and integrated solutions. Our technology and solutions include: digital merchandising systems and omni-channel customer engagement systems, interactive digital shopping assistants, advisors and kiosks, and other interactive marketing technologies such as mobile, social media, point-of-sale transactions, beaconing and web-based media that enable our customers to transform how they engage with consumers. We have expertise in a broad range of existing and emerging digital marketing technologies, as well as the following related aspects of our business: content, network management, and connected device software and firmware platforms; customized software service layers; hardware platforms; digital media workflows; and proprietary processes and automation tools.

Our main operations are conducted directly through Creative Realities, Inc., and under our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation, and Creative Realities Canada, Inc., a Canadian corporation. Our other wholly owned subsidiaries, Creative Realities, LLC, a Delaware limited liability company, and ConeXus World Global, LLC, a Kentucky limited liability company, are effectively dormant.

Liquidity and Financial Condition

The accompanying Consolidated Financial Statements have been prepared on the basis of the realization of assets and the satisfaction of liabilities and commitments in the normal course of business and do not include any adjustments to the recoverability and classifications of recorded assets and liabilities as a result of uncertainties.

We produced net income for the year ended December 31, 2019 but incurred a net loss for the year ended December 31, 2020 and have negative cash flows from operating activities for both periods. As of December 31, 2020, we had cash and cash equivalents of \$1,826 and a working capital deficit of \$306.

On January 11, 2021, Creative Realities, Inc. received a notice from Old National Bank regarding forgiveness of the loan in the principal amount of \$1,552 (the “PPP Loan”) that was made pursuant to the Small Business Administration Paycheck Protection Program under the Coronavirus Air, Relief and Economic Security Act of 2020. According to such notice, the full principal amount of the PPP Loan and the accrued interest have been forgiven. Accounting for the forgiveness will be recognized in the first quarter of 2021.

On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company’s common stock (the “Shares”), in a registered direct offering (the “Offering”) at a purchase price of \$2.50 per Share, for gross proceeds of \$2,000. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1,835, which the Company intends to use for general corporate purposes. The closing of the Offering occurred on February 22, 2021.

On March 7, 2021, the Company and Slipstream entered into an agreement to refinance the Company's Loan and Security Agreement, including (1) the extension of all maturity dates therein to March 31, 2023, (2) the conversion of the Disbursed Escrow Promissory Note into equity, (3) access to an additional \$1,000 via a multi-advance line of credit facility, and (4) the removal of the three times liquidation preference with respect to the Company's Secured Convertible Special Loan Promissory Note.

Management believes that, based on (i) the forgiveness of our PPP Loan, (ii) the execution of a registered direct offering and remaining availability for incremental offerings under our previously registered Form S-3, (iii) the refinancing of our debt, including extension of the maturity date on our term and convertible loans, as well as access to incremental borrowings under the new multi-advance line of credit, and (iv) our operational forecast through 2021, we can continue as a going concern through at least March 31, 2022. However, given our net losses, cash used in operating activities and working capital deficit, we obtained a continued support letter from Slipstream through March 31, 2022. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

See Note 8 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company's debt obligations and further discussion of the Company's refinancing activities subsequent to the year-end date.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying Consolidated Financial Statements follows:

1. Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-K and Article 8 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for annual financial reporting.

The Consolidated Financial Statements include the accounts of Creative Realities, Inc., our wholly owned subsidiaries Allure, ConeXus World Global LLC, Creative Realities (Canada), Inc., and Creative Realities, LLC. All intercompany balances and transactions have been eliminated in consolidation, as applicable.

2. Revenue Recognition

We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, applying the five-step model.

If an arrangement involves multiple performance obligations, the items are analyzed to determine the separate units of accounting, whether the items have value on a standalone basis and whether there is objective and reliable evidence of their standalone selling price. The total contract transaction price is allocated to the identified performance obligations based upon the relative standalone selling prices of the performance obligations. The standalone selling price is based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost plus margin approach.

The Company estimates the amount of total contract consideration it expects to receive for variable arrangements by determining the most likely amount it expects to earn from the arrangement based on the expected quantities of services it expects to provide and the contractual pricing based on those quantities. The Company only includes some or a portion of variable consideration in the transaction price when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company considers the sensitivity of the estimate, its relationship and experience with the client and variable services being performed, the range of possible revenue amounts and the magnitude of the variable consideration to the overall arrangement. The Company receives variable consideration in very few instances.

Revenue is recognized when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. The Company does not have any material extended payment terms as payment is due at or shortly after the time of the sale, typically ranging between thirty and ninety days. Observable prices are used to determine the standalone selling price of separate performance obligations or a cost plus margin approach when one is not available. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

The Company recognizes contract assets or unbilled receivables related to revenue recognized for services completed but not yet invoiced to the clients. Unbilled receivables are recorded as accounts receivable when the Company has an unconditional right to contract consideration. A contract liability is recognized as deferred revenue when the Company invoices clients in advance of performing the related services under the terms of a contract. Deferred revenue is recognized as revenue when the Company has satisfied the related performance obligation.

The Company uses the practical expedient for recording an immediate expense for incremental costs of obtaining contracts, including certain design/engineering services, commissions, incentives and payroll taxes, as these incremental and recoverable costs have terms that do not exceed one year.

3. Inventories

Inventories are stated at the lower of cost or market (net realizable value), determined by the first-in, first-out (FIFO) method, and consist of the following:

	December 31, 2020	December 31, 2019
Raw materials, net of reserve of \$104 and \$134, respectively	\$ 1,920	\$ 200
Inventory on consignment with distributors	208	-
Work-in-process	223	179
Total inventories	<u>\$ 2,351</u>	<u>\$ 379</u>

4. Impairment of Long-Lived Assets

We review the carrying value of all long-lived assets, including property and equipment, for impairment in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under ASC 360, impairment losses are recorded whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

If the impairment tests indicate that the carrying value of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment loss would be recognized. The impairment loss is determined as the amount by which the carrying value of such asset exceeds its fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows from such assets using an appropriate discount rate. Assets to be disposed of are carried at the lower of their carrying value or fair value less costs to sell. Considerable management judgment is necessary to estimate the fair value of assets, and accordingly, actual results could vary significantly from such estimates.

5. Basic and Diluted Income/(Loss) per Common Share

Basic and diluted income/(loss) per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding includes only outstanding common shares. Diluted weighted average shares outstanding includes outstanding common shares and potential dilutive common shares outstanding in accordance with the treasury stock method. Shares reserved for outstanding stock options, including stock options with performance restricted vesting, and warrants totaling approximately 7,040,709 and 5,046,888 at December 31, 2020 and 2019, respectively were excluded from the computation of income/(loss) per share as all options and warrants were anti-dilutive due to the net loss in 2020 and no options or warrants were in the money for 2019. In calculating diluted earnings per share for the years ended December 31, 2020 and 2019, in accordance with ASC 260 *Earnings per share*, we excluded the dilutive effect of the potential issuance of common stock upon an assumed conversion of the Special Loan.

6. Income Taxes

Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from net operating losses, differences in basis of intangibles, stock-based compensation, reserves for uncollectible accounts receivable and inventory, differences in depreciation methods, and accrued expenses. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company accounts for uncertain tax positions utilizing an established recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We had no uncertain tax positions as of December 31, 2020 and December 31, 2019.

7. Goodwill and Definite-Lived Intangible Assets

We follow the provisions of ASC 350, Goodwill and Other Intangible Assets. Pursuant to ASC 350, goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually. The Company uses an annual measurement date of September 30 (see Note 7 *Intangible Assets and Goodwill*).

8. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Our significant estimates include: the allowance for doubtful accounts, valuation allowances related to deferred taxes, the fair value of acquired assets and liabilities, the fair value of liabilities reliant upon the appraised fair value of the Company, valuation of stock-based compensation awards and other assumptions and estimates used to evaluate the recoverability of long-lived assets, goodwill and other intangible assets and the related amortization methods and periods. Actual results could differ from those estimates.

9. Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over the estimated service lives, principally using straight-line methods. Leasehold improvements are amortized over the shorter of the life of the improvement or the lease term, using the straight-line method.

Property and equipment consist of the following at December 31, 2020 and 2019:

	December 31,	
	2020	2019
Equipment	\$ 81	\$ 83
Leasehold improvements	135	136
Purchased and developed software	3,167	2,563
Furniture and fixtures	119	102
Other depreciable assets	56	65
Total property and equipment	3,558	2,949
Less: accumulated depreciation and amortization	(2,218)	(1,396)
Net property and equipment	\$ 1,340	\$ 1,553

The estimated useful lives used to compute depreciation and amortization are as follows:

Asset class	Useful life assigned
Equipment	3 – 5 years
Furniture and fixtures	5 years
Purchased and developed software	3 years
Leasehold improvements	Shorter of 5 years or term of lease

Depreciation expense was \$837 and \$564 for the years ended December 31, 2020 and 2019, respectively.

12. Research and Development and Software Development Costs

Research and development expenses consist primarily of development personnel and non-employee contractor costs related to the development of new products and services, enhancement of existing products and services, quality assurance and testing. The Company capitalizes its costs incurred for additional functionality to its internal software. We capitalized approximately \$603 and \$805 for the years ended December 31, 2020 and 2019, respectively. These software development costs include both enhancements and upgrades of our client-based systems including functionality of our internal information systems to aid in our productivity, profitability and customer relationship management. We are amortizing these costs over 3 years once the new projects are completed and placed in service. These costs are included in property and equipment, net on the Consolidated Balance Sheets.

13. Leases

We account for leases in accordance with ASU No. 2016-02, *Leases* (Topic 842), as amended.

We determine if an arrangement is a lease at inception. Right of use (“ROU”) assets and liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, we consider only payments that are fixed and determinable at the time of commencement. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our incremental borrowing rate is a hypothetical rate based on our understanding of what our credit rating would be. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

Operating leases are included in operating lease right-of-use assets, current maturities of operating leases, and long-term obligations under operating leases on our Consolidated Balance Sheets. Finance leases are included in property and equipment, net, current maturities of financing leases, and long-term obligations under financing leases on our Consolidated Balance Sheets.

NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently adopted

On January 1, 2020, we adopted ASU 2018-15 *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which provide guidance on evaluating the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. The adoption of this guidance had no material impact on our Consolidated Financial Statements.

On January 1, 2020, we adopted ASU No. 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements (Topic 820)*, which improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removed, modified, and added certain disclosure requirements. The adoption of this guidance had no material impact on our Consolidated Financial Statements.

Not yet adopted

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes. This guidance will be effective for us in the first quarter of 2021 on a prospective basis, and early adoption is permitted. We continue evaluating the impact of the guidance but anticipate it will have no material effect on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses*. The main objective is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this update replace the incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. For trade receivables and loans, entities will be required to estimate lifetime expected credit losses. The amendments are effective for public business entities that qualify as smaller reporting companies for fiscal years and interim periods beginning after December 15, 2022. We are currently evaluating the disclosure requirements related to adopting this guidance.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (ASU 2020-06)*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. This guidance will be effective for us in the first quarter of 2022 on a full or modified retrospective basis, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our Consolidated Financial Statements.

NOTE 4: REVENUE RECOGNITION

The Company applies ASC 606 for revenue recognition. The following table disaggregates the Company’s revenue by major source for the years ended December 31, 2020 and 2019:

<i>(in thousands)</i>	Year Ended December 31, 2020	Year Ended December 31, 2019
Hardware	\$ 8,991	\$ 8,229
Services:		
Installation Services	2,537	7,500
Software Development Services	549	9,303
Managed Services	5,380	6,566
Total Services	<u>8,466</u>	<u>23,369</u>
Total Hardware and Services	<u>\$ 17,457</u>	<u>\$ 31,598</u>

System hardware sales

System hardware revenue is recognized generally upon shipment of the product or customer acceptance depending upon contractual arrangements with the customer in instances in which the sale of hardware is the sole performance obligation. Shipping charges billed to customers are included in hardware sales and the related shipping costs are included in hardware cost of sales. The cost of freight and shipping to the customer is recognized in cost of sales at the time of transfer of control to the customer. System hardware revenues are classified as “Hardware” within our disaggregated revenue.

Installation services

The Company performs outsourced installation services for customers and recognizes revenue upon completion of the installations. Installation services also includes engineering services performed as part of an installation project.

When system hardware sales include installation services to be performed by the Company, the goods and services in the contract are not distinct, so the arrangement is accounted for as a single performance obligation. Our customers control the work-in-process and can make changes to the design specifications over the contract term. Revenues are recognized over time as the installation services are completed based on the relative portion of labor hours completed as a percentage of the budgeted hours for the installation. Installation services revenues are classified as "Installation Services" within our disaggregated revenue.

Software design and development services

Software and software license sales are revenue when a fixed fee order has been received and delivery has occurred to the customer. Revenue is recognized generally upon customer acceptance (point-in-time) of the software product and verification that it meets the required specifications. Software is delivered to customers electronically. Software design and development revenues are classified as "Software Development Services" within our disaggregated revenue.

Software as a service

Software as a service includes revenue from software licensing and delivery in which software is licensed on a subscription basis and is centrally hosted. These services often include software updates which provide customers with rights to unspecified software product upgrades and maintenance releases and patches released during the term of the support period. Contracts for these services are generally 12-36 months in length. We account for revenue from these services in accordance with ASC 985-20-15-5 and recognize revenue ratably over the performance period. Software as a service revenue are classified as "Managed Services" within our disaggregated revenue.

Maintenance and support services

The Company sells support services which include access to technical support personnel for software and hardware troubleshooting. The Company offers a hosting service through our network operations center, or NOC, allowing the ability to monitor and support its customers' networks 7 days a week, 24 hours a day. These contracts are generally 12-36 months in length. Revenue is recognized over the term of the agreement in proportion to the costs incurred in fulfilling performance obligations under the contract. Maintenance and Support revenues are classified as "Managed Services" within our disaggregated revenue.

Maintenance and support fees are based on the level of service provided to end customers, which can range from monitoring the health of a customer's network to supporting a sophisticated web-portal to managing the end-to-end hardware and software of a digital marketing system. These agreements are renewable by the customer. Rates for maintenance and support, including subsequent renewal rates, are typically established based upon a fee per location, per device, or a specified percentage of net software license fees as set forth in the arrangement. These contracts are generally 12-36 months in length. Revenue is recognized ratably and evenly over the service period.

The Company also performs time and materials-based maintenance and repair work for customers. Revenue is recognized at a point in time when the performance obligation has been fully satisfied.

NOTE 5: FAIR VALUE MEASUREMENT

We measure certain financial assets, including cash equivalents, at fair value on a recurring basis. In accordance with ASC 820-10-30, fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820-10-35 establishes a three-level hierarchy that prioritizes the inputs used in measuring fair value. The three hierarchy levels are defined as follows:

Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets.

Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and involve management judgment and the reporting entity's own assumptions about market participants and pricing.

The Company previously recorded warrant liabilities that were measured at fair value on a recurring basis using a binomial option pricing model. All of the Company's outstanding warrants classified as liabilities expired during 2019.

As part of the Allure Acquisition, the Purchase Agreement contemplated additional consideration of \$2,000 to be paid by us to Christie Digital Systems, USA ("Seller") in the event that acquiree revenue exceeds \$13,000, as defined in the underlying agreement, for any of the trailing twelve-month periods measured as of December 31, 2019, March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020. The fair value of the earnout liability was determined to be \$250 at the time of acquisition. As part of our finalization of opening balance sheet accounting at the close of the measurement period in November 2019, we recorded an adjustment to reflect the earnout liability to \$0. The liability was deemed to be Level 3 as the valuation is based on revenue projections and estimates developed by management as informed by historical results. The liability was confirmed to be \$0 at December 31, 2020 as metrics were not achieved for additional consideration through the year-end date.

As discussed in Note 7 *Intangible Assets, Including Goodwill*, the calculation of the weighted average cost of capital and management's forecast of future financial performance utilized within our discounted cash flow model for the impairment of goodwill contains inputs which are unobservable and involve management judgment and are considered Level 3 estimates.

As discussed in Note 8 *Loans Payable*, the Special Loan is reported at fair value. This liability is deemed to be a Level 3 valuation. Certain unobservable inputs into the calculation of the fair value of this liability include an estimate of the fair value of the Company at a future date using a discounted cash flow model, discount rate assumptions, and an estimation of the likelihood of conversion of the Special Loan. As of December 31, 2020, we updated our fair value analysis of the Special Loan, which was originally evaluated at March 31, 2020 utilizing the assistance of a third-party valuation specialist, resulting in recognition of a loss of \$93 during the year ended December 31, 2020 from the change in fair value of the liability and a corresponding increase/decrease in the debt balance recorded in the Consolidated Balance Sheet.

NOTE 6: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Year Ended December 31,	
	2020	2019
Supplemental disclosure information for cash flow		
Cash paid during the period for:		
Interest	\$ 140	\$ 403
Income taxes, net	\$ 19	\$ 25

NOTE 7: INTANGIBLE ASSETS AND GOODWILL*Intangible Assets*

Intangible assets consisted of the following at December 31, 2020 and December 31, 2019:

	December 31, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	\$ 4,635	3,400	\$ 4,635	3,147
Customer relationships	5,330	2,870	5,330	2,679
Trademarks and trade names	1,020	925	1,020	752
	<u>10,985</u>	<u>7,195</u>	<u>10,985</u>	<u>6,578</u>
Accumulated amortization	7,195		6,578	
Net book value of amortizable intangible assets	<u>\$ 3,790</u>		<u>\$ 4,407</u>	

For the years ended December 31, 2020 and 2019, amortization of intangible assets charged to operations was \$617 and \$654, respectively.

Estimated amortization is as follows:

Year ending December 31,	Estimated Future Amortization
2021	\$ 544
2022	444
2023	444
2024	444
Thereafter	1,914

Intangible assets include the following and are being amortized over their estimated useful lives as follows:

Acquired Intangible Asset:	Amortization Period: (years)
Technology platform and patents	7
Trademark	3
Customer relationships	15

Goodwill

The following is a rollforward of the Company's goodwill since December 31, 2019:

	Total
Balance as of January 1, 2020	\$ 18,171
Goodwill impairment	(10,646)
Balance as of December 31, 2020	<u>\$ 7,525</u>

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is subject to an impairment review at a reporting unit level, on an annual basis as of the end of September of each fiscal year, or when an event occurs, or circumstances change that would indicate potential impairment. The Company has only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit.

Interim Impairment Assessment – March 31, 2020

Despite the excess fair value identified in our 2019 annual impairment assessment, we determined that the reduced cash flow projections and the significant decline in our market capitalization as a result of the COVID-19 pandemic during the three months ended March 31, 2020 indicated that an impairment loss may have been incurred during the first quarter. Therefore, we qualitatively assessed whether it was more likely than not that the goodwill was impaired as of March 31, 2020. We reviewed our previous forecasts and assumptions based on our current projections that are subject to various risks and uncertainties, including: (1) forecasted revenues, expenses and cash flows, including the duration and extent of impact to our business and our alliance partners from the COVID-19 pandemic, (2) current discount rates, (3) the reduction in our market capitalization, (5) changes to the regulatory environment and (6) the nature and amount of government support that will be provided. As a result of this qualitative assessment, we concluded that indicators of impairment were present and that a quantitative interim impairment assessment of our goodwill was necessary as of March 31, 2020.

As a result of the adoption of ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* the impairment test consists solely of comparing the carrying value of the reporting unit with its fair value and recording impairment, if identified.

The fair value of the reporting unit was estimated via the income approach. Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for our industry. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and by analyzing published rates relevant to our business to estimate the cost of equity financing. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. We utilized a discount rate of 14.5% in our valuation completed as of March 31, 2020.

While our outlook for the digital signage industry over the long term remains strong, we have experienced rapid and immediate deterioration in our short term business as a result of the COVID-19 pandemic, generating increased uncertainty across our customer base in many of our key vertical markets. The elective and forced closures of businesses across the United States has resulted in reduced demand for our services, which primarily assist business in engaging with their end customers in a physical space through digital technology. The elimination and minimization of public gatherings has materially impacted demand for products and services in our movie theater, sports arena and large entertainment markets. These conditions resulted in downward revisions of our internal forecasts on current and future projected earnings and cash flows, leading to an implied fair value of goodwill substantially below the carrying value. Therefore, during the three months ended March 31, 2020, we recorded a non-cash impairment loss of \$10,646. We recorded the estimated impairment losses in the caption “Goodwill impairment” in our Consolidated Statement of Operations.

Annual Impairment Assessment – September 30, 2020

The Company assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of the respective reporting unit. Fair value of the reporting unit was estimated using a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur, specifically, the Company gave significant consideration to actual historic financial results, including revenue growth rates in the preceding three years. Based on the Company’s assessment, we determined that the fair value of our reporting unit exceeds its carrying value, and accordingly, the goodwill associated with the reporting unit is not considered to be impaired at September 30, 2020.

Given the proximity in time to the most recent goodwill impairment, which marked the Company’s goodwill balance down to fair value, the Company anticipated its analysis would result in a thin margin in the percentage of excess fair value over carrying value as of the assessment date. Through the analysis performed as of September 30, 2020, the excess fair value over carrying value was approximately 7%. Based on the Company’s assessment, we determined that the fair value of our reporting unit exceeds its carrying value, and accordingly, the goodwill associated with the reporting unit is not considered to be impaired at September 30, 2020.

The Company recognizes that any changes in our projected 2021 and future results could potentially have a material impact on our assessment of goodwill impairment. The Company will continue to monitor the actual performance of its operations against expectations and assess further indicators of possible impairment. The valuation of goodwill and intangible assets is subject to a high degree of judgment, uncertainty and complexity. Should any indicators of impairment occur in subsequent periods, the Company will be required to perform an analysis in order to determine whether goodwill is impaired.

NOTE 8: LOANS PAYABLE

The outstanding debt with detachable warrants, as applicable, are shown in the table below. Further discussion of the notes follows.

As of December 31, 2020

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
A	6/30/2018	\$ 264	N/A	-	0.0% interest
B	1/16/2018	1,085	3/31/2023	61,729	10.0% interest ⁽¹⁾
C	8/17/2016	3,255	3/31/2023	588,236	10.0% interest ⁽¹⁾
D	11/19/2018	1,637	2/15/2020	-	3.5% interest
E	12/30/2019	2,177	3/31/2023	-	10.0% interest ⁽²⁾
F	4/27/2020	1,552	4/27/2022 ⁽³⁾	-	1.0% interest ⁽³⁾
	Total debt, gross	9,970		649,965	
	Fair value (E)	93			
	Total debt, gross	10,063			
	Debt discount	(168)			
	Total debt, net	\$ 9,895			
	Less current maturities	(1,637)			
	Long term debt	8,258			

As of December 31, 2019

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
A	6/30/2018	\$ 264	6/30/2021	-	0.0% interest
B	1/16/2018	1,000	6/30/2021	61,729	8.0% interest
C	8/17/2016	3,000	6/30/2021	588,236	8.0% interest
D	11/19/2018	1,637	2/15/2020	-	3.5% interest
E	12/30/2019	2,000	6/30/2021	-	8.0% interest
		\$ 7,901		649,965	
	Debt discount	(507)			
	Total debt	\$ 7,394			
	Less current maturities	(3,637)			
	Long term debt	3,757			

- A – Secured Disbursed Escrow Promissory Note with related party
 B – Secured Revolving Promissory Note with related party
 C – Term Loan with related party
 D – Amended and Restated Seller Note from acquisition of Allure
 E – Secured Convertible Special Loan Promissory Note, at fair value
 F – Paycheck Protection Program Loan from Small Business Administration

- (1) 8.0% cash interest per annum through March 31, 2020. 10.0% paid-in-kind interest (“PIK”) interest per annum from April 1, 2020 through December 31, 2020. 8.0% cash interest per annum January 1, 2021 through the maturity date.
- (2) 8.0% cash interest per annum, comprised of 6.0% cash, 2.0% PIK through March 31, 2020. 10.0% PIK interest per annum through September 30, 2020. In an event of default, the interest rate increases by 6.0% to 16.0%. Debt is automatically convertible to a new class of senior preferred stock of the Company at the earlier of an event of default or November 30, 2020. The principal, including PIK interest, as of December 31, 2020 is \$2,177; however, fair value accounting for the convertible debt instrument results in an additional \$93 of debt recorded on the Consolidated Balance Sheet as of December 31, 2020 related to this instrument.
- (3) 1.0% cash interest per annum. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days.

SBA Paycheck Protection Program Loan

On April 27, 2020, the Company entered into a Promissory Note with Old National Bank (the “Promissory Note”), which provided for an unsecured loan of \$1,552 pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the “CARES Act”). The Promissory Note has a term of two years with a 1% per annum interest rate. While the Promissory Note currently has a two-year term, the amended law permits the Company to request a five-year maturity from Old National Bank. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days. On January 11, 2021, Creative Realities, Inc. received a notice from Old National Bank regarding forgiveness of the loan in the principal amount of \$1,552 (the “PPP Loan”) that was made pursuant to the Small Business Administration Paycheck Protection Program under the Coronavirus Air, Relief and Economic Security Act of 2020. According to such notice, the full principal amount of the PPP Loan and the accrued interest have been forgiven. Accounting for the forgiveness will be recognized in the first quarter of 2021.

Amended and Restated Loan and Security Agreement

On March 7, 2021, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream Communications, LLC (“Slipstream”), pursuant to an Amended and Restated Credit and Security Agreement (the “Credit Agreement”). The debt facilities continue to be fully secured by all assets of the Borrowers. The maturity date (“Maturity Date”) on the outstanding debt and new debt is extended to March 31, 2023. The Credit Agreement (i) provides a \$1,000 of availability under a line of credit (the “Line of Credit”), (ii) consolidates our existing term and revolving line of credit facilities into a new term loan (the “New Term Loan”) having an aggregate principal balance of approximately \$4,550 (including a 3.0% issuance fee capitalized into the principal balance), (iii) increases the outstanding special convertible term loan (the “Convertible Loan”) to approximately \$2,280 (including a 3.0% issuance fee capitalized into the principal balance), and (iv) extinguishes the outstanding obligations owed with respect to a \$264 existing disbursed escrow loan in exchange for shares of the Company’s common stock (the “Disbursed Escrow Conversion Shares”), valued at \$2.718 per share (the trailing 10-day VWAP as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement). The Line of Credit and Convertible Loan accrue interest at 10% per year, and the New Term Loan accrues interest at 8% per year.

The New Term Loan requires no principal payments until the Maturity Date, and interest payments are payable on the first day of each month until the Maturity Date. All interest payments owed prior to October 1, 2021 are payable as PIK payments, or increases to the principal balance only.

The Line of Credit and Convertible Loan require payments of accrued interest payable on the first day of each month through April 1, 2022. All such interest payments made prior to October 1, 2021 are payable as PIK payments, or increases to the principal balances under the Line of Credit and Convertible Loan only. No principal payments are owed under the Line of Credit or Convertible Loan until April 1, 2022, at which time all principal and interest on each of the Line of Credit and Convertible Loan will be paid in monthly installments until the Maturity Date to fully amortize outstanding principal by the Maturity Date.

All payments of interest (other than PIK payments) and principal on the Line of Credit and Convertible Loan may be paid, in the Borrowers' sole discretion, in shares of the Company's Common Stock (the "Payment Shares," and together with the Disbursed Escrow Conversion Shares, the "Shares"). The Payment Shares will be valued on a per-Share basis at 70% of the VWAP of the Company's shares of common stock as reported on the Nasdaq Capital Market for the 10 trading days immediately prior to the date such payment is due; provided that the Payment Shares shall not be valued below \$0.50 per Share (the "Share Price").

The Credit Agreement limits the Company's ability to issue Shares as follows (the "Exchange Limitations"): (1) The total number of Shares that may be issued under the Credit Agreement will be limited to 19.99% of the Company's outstanding shares of common stock on the date the Credit Agreement is signed (the "Exchange Cap"), unless stockholder approval is obtained to issue shares in excess of the Exchange Cap; (2) if Slipstream and its affiliates (the "Slipstream Group") beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares and such shares are less than 19.99% of the then-issued and outstanding shares of Company common stock, the issuance of such Payment Shares will not cause the Slipstream Group to beneficially own in excess of 19.99% of the issued and outstanding shares of Company common stock after such issuance unless stockholder approval is obtained for ownership in excess of 19.99%; and (3) if the Slipstream Group does not beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares, the Company may not issue Payment Shares to the extent that such issuance would result in Slipstream Group beneficially owning more than 19.99% of the then issued and outstanding shares of Company common stock unless (A) such ownership would not be the largest ownership position in the Company, or (B) stockholder approval is obtained for ownership in excess of 19.99%.

Accounting for the Credit Agreement is anticipated to be accounted for as a debt extinguishment in the first quarter of 2021. Entry into the Credit Agreement prior to the filing of this report resulted in the reclassification of approximately \$6,706, net of debt discount, from current maturities to long term debt.

Loan and Security Agreement History

On August 17, 2016, the Company entered into a Loan and Security Agreement with Slipstream ("Loan and Security Agreement"). Since the initial entry into the Loan and Security Agreement in 2016, the Company has entered into several financing arrangements with varying interest rates, maturity dates, and number of associated detachable warrants, each entered within the structure of the Loan and Security Agreement. The debt instruments outstanding under the Loan and Security Agreement as of December 31, 2020 include the Term Loan, Secured Revolving Promissory Note, Secured Disbursed Escrow Promissory Note, and the Special Loan.

The Loan and Security Agreement contains certain customary restrictions including, but not limited to, restrictions on mergers and consolidations with other entities, cancellation of any debt or incurring new debt (subject to certain exceptions), and other customary restrictions. Obligations under the loan and security agreement are secured by a grant of collateral security in all of the tangible assets of Creative Realities, Inc. and each of its wholly owned subsidiaries.

Ninth, Tenth, Eleventh, Twelfth, and Thirteenth Amendment; Modification of Conversion Date of Special Loan under Loan and Security Agreement

On February 28, 2021, January 31, 2021, December 31, 2020, November 30, 2020, and September 29, 2020, the Company entered into several amendments to Loan and Security Agreement with its subsidiaries and Slipstream to amend the automatic conversion date of the Special Loan. Each amendment extended the automatic conversion date of the Special Loan, which was ultimately Amended and Restated in full on March 7, 2021 as discussed further above. The Company paid no fees in exchange for these extensions.

Eighth Amendment; Modification of Interest Rates under Loan and Security Agreement

On April 1, 2020, the Company entered into an Eighth Amendment to Loan and Security Agreement (the “Eighth Amendment”) with its subsidiaries and Slipstream to amend the terms of the payments and interest accruing on the Company’s Term Loan, Secured Revolving Promissory Note, and Special Loan. The Eighth Amendment increased the interest rates of these loans from 8% to 10%, effective April 1, 2020. Until January 1, 2021, rather than cash payments of accrued interest under the term and revolving loans, interest will be paid by the issuance of and treated as additional principal thereunder. Commencing January 2, 2021, such interest will be payable in cash. Interest on the special loan will no longer be paid in cash, but by the issuance of and treated as additional principal thereunder.

Upon entry into the Eighth Amendment, the Company completed an analysis of the changes in the Loan and Security Agreement within ASC 470 *Debt*, concluding that the changes represent a modification to the existing debt that was not a troubled debt restructuring and will account for the modified terms prospectively as yield adjustments, based on the revised terms.

Seventh Amendment; Entry into Secured Convertible Special Loan Promissory Note

On December 30, 2019, we entered into the Special Loan as part of the Seventh Amendment under which we obtained \$2,000, with interest thereon at 8% per annum payable 6% in cash and 2% via the issuance of SLPIK interest, provided however that upon occurrence of an event of default the interest rate shall automatically be increased by 6% per annum payable in cash. The entry into the Seventh Amendment adjusted the interest rate on the Company’s Term Loan and Revolving Loan to 8% per annum, provided, however, at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan exceeds \$4,100 then the Loan Rate shall be 10%, of which eight percent 8% shall be payable in cash and 2% shall be paid by the issuance of and treated as additional PIK.

Upon the earlier to occur of an Event of Default or October 1, 2020, if any of the principal amount of the Special Loan is then outstanding, the principal and accrued but unpaid interest of the Special Loan and the outstanding SLPIK shall be automatically converted into shares of a new series of Senior Convertible Preferred Stock of the Company (“New Preferred”) having an Appraised Value equal to three times the then outstanding principal amount and accrued but unpaid interest of the Special Loan and the outstanding SLPIK and having the following terms and conditions, as reasonably determined by the Company and Slipstream, the New Preferred shall:

- be the most senior equity security of the Company, including with respect to the payment of dividends and other distributions;
- be on substantially the same terms and conditions as the Company’s Series A-1 6% Convertible Preferred Stock as set forth in its Certificate of Designation immediately before the same was cancelled pursuant to a Certificate of Cancellation dated as of March 13, 2019;
- not be subject to a right of redemption upon the part of a holder thereof;
- accrue and pay quarterly dividends at the rate of twelve percent (12%) per annum which shall be payable in cash;
- have a Stated Value that is an amount mutually agreed by the Company and the Slipstream at the time of issuance;

- Conversion Price shall be an amount equal to 80% of the average for the 30-day period ending two days prior to the required conversion date of the daily average of the range of the Company's common stock (calculated pursuant to information on The Wall Street Journal Online Edition), subject to appropriate adjustments; and
- neither section 6(e) of the Series A-1 Certificate of Designation nor any similar provision shall apply to the New Preferred.

In entering the Seventh Amendment and Special Loan, pursuant to ASC 825-10-25-1, *Fair Value Option*, we made an irrevocable election to report the Special Loan at fair value, with changes in fair value recorded through the Company's Consolidated Statements of Operations in each reporting period. For the year ended December 31, 2020, our fair value analysis of the Special Loan resulted in recognition of a \$93 loss from the change in fair value of the liability

Sixth Amendment; Extension of Maturity Dates

On November 6, 2019, Slipstream extended the maturity date of our term loan and revolver loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of our Term Loan and Secured Revolving Promissory Note with the Secured Disbursed Escrow Promissory Note.

Secured Disbursed Escrow Promissory Note

The Fourth Amendment to the Loan and Security Agreement included entry into a Secured Disbursed Escrow Promissory Note between the Company and Slipstream, and, effective June 30, 2018 we drew \$264 in conjunction with our exit from a previously leased operating facility. The principal amount of the Secured Disbursed Escrow Promissory Note bears no interest. Upon entry into the Restated Agreement on March 7, 2021, this note was converted into Company common stock, which will be recorded during the first quarter of 2021.

Amended and Restated Seller Note from acquisition of Allure

The Amended and Restated Seller Note represents a note payable due from Allure to Seller, under a pre-existing Seller Note which was amended and restated to a reduced amount of \$900 through the Stock Purchase Agreement. At the closing date, the estimated net working capital deficit of Allure was \$801 in excess of the target net working capital as defined in the Stock Purchase Agreement. As of the balance sheet date, Allure also had accounts payable to Seller for outsourced services of \$2,204. We agreed with the Seller to settle the estimated net working capital deficit through a reduction in the accounts payable to Seller as of the acquisition date and to further amend the Seller Note to include the remaining \$1,403 accounts payable due from Allure to Seller, resulting in a Seller Note of \$2,303. That debt is represented by our issuance to the Seller of a promissory note accruing interest at 3.5% per annum. The promissory note requires us to make quarterly payments of interest only through February 19, 2020, on which date the promissory note matured and all remaining amounts owing thereunder became due.

The promissory note is convertible into shares of Creative Realities common stock, at the seller's option on or after the 180th day after issuance, at an initial conversion price of \$8.40 per share, subject to customary equitable adjustments. Conversion of all amounts owing under the promissory note will be mandatory if the 30-day volume-weighted average price of our common stock exceeds 200% of the common stock trading price at the closing of the acquisition. We granted the seller customary registration rights for the shares of our common stock issuable upon conversion of the promissory note.

On February 20, 2020, the Company and Allure filed a demand for arbitration against Seller for (1) breach of contract, (2) indemnification, and (3) fraudulent misrepresentation under the Allure Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We have not paid, nor do we intend to pay, the Amended and Restated Seller Note, which is now past its maturity date, without resolution of our demand for arbitration. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. The Company continues to accrue interest on the Amended and Restated Seller Note and have included \$67 in accrued expenses in the Consolidated Financial Statements as of December 31, 2020. See Note 9 *Commitments and Contingencies* for further discussion.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Litigation

On August 2, 2019, the Company filed suit in Jefferson Circuit Court, Kentucky, against a supplier of Allure for breach of contract, breach of warranty, and negligence with respect to equipment installations performed by such supplier for an Allure customer. This case remains in the early stages of litigation, in part due to delays resulting from the COVID-19 pandemic, and, as a result, the outcome of each case is unclear, so the Company is unable to reasonably estimate the possible recovery, or range of recovery, if any.

On October 10, 2019, the Allure customer that is the basis of our claim above sent a demand to the Company for payment of \$3,200 as settlement for an alleged breach of contract related to hardware failures of equipment installations performed by Allure between November 2017 and August 2018. The suits filed by and against Allure have been adjoined in the Jefferson Circuit Court, Kentucky in January 2020. This suit remains in the early stages of litigation and, as a result, the outcome of the suit and the allocation of liability, if any, remain unclear, so the Company is unable to reasonably estimate the possible liability, recovery, or range of magnitude for either the liability or recover, if any, at the time of this filing.

The Company has notified its insurance company on notice of potential claims and continues to evaluate both the claim made by the customer and potential avenues for recovery against third parties should the customer prevail.

On February 20, 2020, the Company and Allure filed a demand for arbitration against Seller for breach of contract, indemnification, and fraudulent misrepresentation under the Allure Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We have not paid the Amended and Restated Seller Note which is now past its maturity date. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. In December 2020, the parties entered a pre-arbitration mediation process in an effort to settle the litigation, which remains ongoing as of the date of this report. We continue to assert the offset right under the Purchase Agreement and Amended and Reseller Note.

Except as noted above, the Company is not party to any other material legal proceedings, other than ordinary routine litigation incidental to the business, and there were no other such proceedings pending during the period covered by this Report.

Settlement of obligations

During the year ended December 31, 2020, the Company settled and/or wrote off obligations of \$348 for aggregate cash payments of \$139 and recognized a gain of \$209 related to legacy accounts payable deemed to no longer be legal obligations to vendors.

During the year ended December 31, 2019, the Company settled and/or wrote off obligations of \$3,178 for \$1,132 cash payment and recognized a gain of \$2,046. \$1,619 of this gain related to settlement of legacy sales commissions due to a third party vendor which were settled with a cash payment of \$1,100 during the three-months ended December 31, 2019. The remaining settlements related to legacy accounts payable deemed to no longer be legal obligations to vendors.

Employee-related Expenses

We implemented cost-control measures in light of the effect of the COVID-19 pandemic on our business, including employment compensation reductions designed to achieve preliminary cost savings. On March 19, 2020, the Company's Board of Directors approved a six-month reduction of the salaries of our Chief Executive Officer and Chief Financial Officer by twenty percent (20%), thereby reducing the salaries payable to such officers in 2020 to \$297,000 and \$224,100, respectively. The reduction of the salaries of our Chief Executive Officer and Chief Financial Officer remain active as of the date of this report.

On March 20, 2020, we completed a reduction-in-force and accrued one-time termination benefits related to severance to the affected employees of \$135, the total of which was paid during the three months ended June 30, 2020. Pursuant to certain employee-related actions taken in 2018, the Company made cash payments of approximately \$555 during the year ended December 31, 2019 that were previously accrued.

Lease termination

On December 31, 2020, we exited our office facilities located in Dallas, TX. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$18. There were no such lease terminations during 2019.

NOTE 10: RELATED PARTY TRANSACTIONS

In addition to the financing transactions with Slipstream, a related party, discussed in Note 8 *Loans Payable*, we have the following related party transactions.

On August 14, 2018, we entered into a payment agreement with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management (“33 Degrees”) outlining terms for repayment of \$2,567 of aged accounts receivable as of that date. The payment agreement stipulated a simple interest rate of 12% on aged accounts receivable to be paid on the tenth day of each month through the maturity date of December 31, 2019. As of December 31, 2019, 33 Degrees paid the note in full.

Following repayment of the note, 33 Degrees has continued to purchase additional hardware and services from the Company under normal payment terms.

For the years ended December 31, 2020 and 2019, we had sales of \$1,058 (6.1% of consolidated sales) and \$1,103 (3.5% of consolidated sales), respectively, with 33 Degrees. Accounts receivable due from 33 Degrees was \$40, or 1.2%, and \$1, or 0% of consolidated accounts receivable at December 31, 2020 and December 31, 2019, respectively.

NOTE 11: INCOME TAXES

Income tax benefit/(expense) consisted of the following:

	<u>Year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Tax provision summary:		
State income tax	\$ (17)	\$ (46)
Deferred tax benefit/(expense) - federal	150	(17)
Deferred tax benefit/(expense) – state	25	(30)
Tax benefit/(expense)	<u>\$ 158</u>	<u>\$ (93)</u>

The income tax benefit includes federal and state income taxes currently payable and those deferred or prepaid because of temporary differences between financial statement and tax bases of assets and liabilities. The Company records income taxes under the liability method. Under this method, deferred income taxes are recognized for the estimated future tax effects of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws.

A reconciliation of the statutory income tax rate to the effective income tax rates as a percentage of income before income taxes is as follows:

	<u>2020</u>	<u>2019</u>
Federal statutory rate	21.00%	21.00%
State taxes, net of federal benefit	1.53%	9.85%
Foreign rate differential	0.51%	-9.69%
Discrete items, Transaction items, and Other	-7.00%	44.85%
Changes in valuation allowance	-15.11%	-57.76%
Effective tax rate	<u>0.93%</u>	<u>8.25%</u>

The net deferred tax assets and liabilities recognized in the accompanying Consolidated Balance Sheets, determined using the income tax rate applicable to each period, consist of the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Deferred tax assets (liabilities):		
Reserves	\$ 318	\$ 175
Property and equipment	(40)	(83)
Accrued expenses	326	265
Right-of-use Asset	(147)	(414)
Right-of-use Liability	149	419
IRC 163(j) Interest Deduction	18	17
Non-qualified stock options	675	528
R&D credits	1,801	1,801
Net foreign carryforwards	3,106	2,768
US net operating loss and credit carryforwards	35,566	34,754
Intangibles	(13)	(1,128)
Total deferred tax assets, net	41,759	39,102
Valuation allowance	(41,759)	(39,277)
Net deferred tax liabilities	<u>\$ -</u>	<u>\$ (175)</u>

As of December 31, 2020, the Corporation had no reserves recorded as a liability for unrecognized tax benefits for U.S. federal and state tax jurisdictions. There were no unrecognized tax benefits as of December 31, 2020 that, if recognized, would affect the tax rate. It is the Corporation's policy to accrue interest and penalties related to liabilities for income tax contingencies in the provision for income taxes. As of December 31, 2020, the Corporation had no accrued interest or penalties related to uncertain tax positions.

Our deferred tax assets are primarily related to net federal and state operating loss carryforwards (NOLs). As of December 31, 2020, the Company has federal and state net operating loss carryforwards expiring between 2020 and 2039, \$7,924 of which has an indefinite carryforward period. The federal statute of limitations remains open for tax years 2017 through 2019 and state tax jurisdictions generally have statutes of limitations open for tax years 2016 through 2019.

We have substantial NOLs that are limited in usage by IRC Section 382. IRC Section 382 generally imposes an annual limitation on the amount of NOLs that may be used to offset taxable income when a corporation has undergone significant changes in stock ownership within a statutory testing period.

The goodwill impairment recorded March 31, 2020 altered the deferred tax impact associated with indefinite lived goodwill from a deferred tax liability to a deferred tax asset. As the indefinite-lived intangibles can no longer provide a source of income, a full valuation allowance was placed against the deferred tax assets.

We have performed a preliminary analysis of the annual NOL carryforwards and limitations that are available to be used against taxable income. Based on the history of losses of the Company, there continues to be a full valuation allowance against the net deferred tax assets of the Company.

NOTE 12: WARRANTS

A summary of outstanding warrants for the years ended December 31, 2020 and 2019 is included below:

	Year Ended December 31, 2020		
	Warrants (Equity)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2020	4,733,028	\$ 4.83	3.41
Warrants issued	-	-	-
Warrants exercised	(27,600)	4.38	-
Warrants expired	(278,528)	7.08	-
Balance December 31, 2020	4,426,900	\$ 4.62	2.83

	Year Ended December 31, 2019					
	Warrants (Equity)		Warrants (Liability)			
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2019	4,815,047	\$ 4.90	4.34	216,255	\$ 7.34	0.64
Warrants issued	-	-	-	-	-	-
Warrants expired	(82,019)	8.25	-	(216,255)	7.34	-
Balance December 31, 2019	4,733,028	\$ 4.83	3.41	-	\$ -	-

NOTE 13: STOCK-BASED COMPENSATION

A summary of outstanding options is included below:

<i>Time Vesting Options</i>					
Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.01 - \$3.00	1,525,000	9.41	\$ 2.52	8,333	\$ 1.88
\$3.01 - \$7.50	184,830	5.34	\$ 6.72	168,163	\$ 6.64
\$7.51+	103,979	4.44	11.74	99,187	\$ 11.89
	1,813,809	8.71	\$ 3.48	275,683	

<i>Performance Vesting Options</i>					
Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.01 - \$3.00	800,000	9.42	\$ 2.53	-	\$ -
	800,000	9.42	\$ 2.53	-	

Date/Activity	<i>Time Vesting Options</i>		<i>Performance Vesting Options</i>	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2019	313,860	\$ 8.06	-	\$ -
Granted	1,580,000	2.53	800,000	2.53
Exercised	-	-	-	-
Forfeited or expired	(80,051)	2.76	-	-
Balance, December 31, 2020	1,813,809	3.48	800,000	\$ 2.53

The weighted average remaining contractual life for options exercisable is 5.2 years as of December 31, 2020.

Valuation Information for Stock-Based Compensation

For purposes of determining estimated fair value under FASB ASC 718-10, *Stock Compensation*, the Company computed the estimated fair values of stock options using the Black-Scholes model.

On June 1, 2020 the Board of Directors of the Company granted 10-year options to purchase an aggregate of 2,380,000 shares of its common stock to employees of the Company subject to shareholder approval of an increase in the reserve of shares authorized for issuance under the Company's 2014 Stock Incentive Plan (the "Plan"). On July 10, 2020, the Company held a special meeting of the Company's shareholders at which the shareholders approved the amendment to the Plan, which increased the reserve of shares authorized for issuance thereunder to 6,000,000 shares.

Of the 2,380,000 options awarded, 1,580,000 vest over 3 years and have an exercise price of \$2.53, the market value of the Company's common stock on the grant date. The fair value of the options on the grant date was \$1.87 and was determined using the Black-Scholes model. These values were calculated using the following weighted average assumptions:

Risk-free interest rate	0.66%
Expected term	6.25 years
Expected price volatility	89.18%
Dividend yield	0%

The remaining 800,000 options awarded vest in equal installments over a three-year period subject to satisfying the Company revenue target and earnings before interest, taxes, depreciation and amortization ("EBITDA") target for the applicable year. In each of calendar years 2020, 2021 and 2022, one-third of the total shares may vest (if the revenue and EBITDA targets are met), and the shares that are subject to vesting each year are allocated equally to each of the revenue and EBITDA targets for such year.

These performance options include a catch-up provision, where any options that did not vest during a prior year due to the Company's failure to meet a prior revenue or EBITDA target may vest in a subsequent vesting year if the revenue or EBITDA target, as applicable, is met in the future year. The revenue and EBITDA targets for the following three years are as follows:

Calendar Year	Revenue Target	EBITDA Target
2020	\$32 million	\$2.2 million
2021	\$35 million	\$3.1 million
2022	\$38 million	\$3.5 million

The exercise price of the foregoing options is \$2.53 per share, the closing price of the Company's common stock on the date of issuance. The options were issued from the Company's 2014 Stock Incentive Plan. The fair value of the options on the grant date was \$1.87 and was determined using the Black-Scholes model. These values were calculated using the same weighted average assumptions as the time vesting options issued. Performance against the identified revenue and EBITDA targets will be assessed quarterly by the Company in order to determine whether any compensation expense should be recorded. As of December 31, 2020, the Company had recorded no compensation expense in the Consolidated Statement of Operations with respect to these awards.

Stock Compensation Expense Information

ASC 718-10, *Stock Compensation*, requires measurement and recognition of compensation expense for all stock-based payments including warrants, stock options, restricted stock grants and stock bonuses based on estimated fair values. Under the Amended and Restated 2006 Equity Incentive Plan, the Company reserved 1,720,000 shares for purchase by the Company's employees and under the Amended and Restated 2006 Non-Employee Director Stock Option Plan the Company reserved 700,000 shares for purchase by the Company's employees. There are 12,135 options outstanding under the 2006 Equity Incentive Plan.

In October 2014, the Company's shareholders approved the 2014 Stock Incentive Plan, under which 7,390,355 shares were reserved for purchase by the Company's employees. In August 2018, a special meeting of shareholders was held in which the shareholders voted to amend the Company's 2014 Stock Incentive Plan to increase the reserve of shares authorized for issuance thereunder, from 7,390,355 shares to 18,000,000 shares. Following a 1-for-30 reverse stock split, the shares authorized for issuance under the Company's 2014 Stock Incentive Plan was reduced to 600,000. On July 10, 2020, the Company's shareholders approved an amendment to the Company's 2014 Stock Incentive Plan to increase the reserve of authorized for issuance thereunder to 6,000,000. There are 2,601,674 options outstanding under the 2014 Stock Incentive Plan.

Compensation expense recognized for the issuance of stock options, including those options awarded to our Chairman of the Board, for the years ended December 31, 2020 and 2019 of \$718 and \$448, respectively, was included in general and administrative expense in the Consolidated Financial Statements. Amounts recorded include stock compensation expense for awards granted to directors of the Company in exchange for services at fair value, including \$100 and \$63, respectively, for the years ended December 31, 2020 and December 31, 2019, respectively.

At December 31, 2020, there was approximately \$2,365 and \$1,499 of total unrecognized compensation expense related to unvested share-based awards with time vesting and performance vesting criteria, respectively. Generally, expense related to the time vesting options will be recognized over the next two- and one-half years and will be adjusted for any future forfeitures as they occur. Compensation expense related to performance vesting options will be recognized if it becomes probable that the Company will achieve the identified performance metrics.

At December 31, 2019, there was approximately \$174 of total unrecognized compensation expense related to unvested share-based awards with time vesting.

On September 20, 2018, the Compensation Committee of the Board of Directors proposed, and the Board of Directors approved, an aggregate award of 166,667 shares of common stock to our current CEO in light of performance and growth of certain key customer relationships. Of those shares granted, 133,334 were deemed to be awarded and fully vested as of such date, with the remaining 33,333 shares restricted to vest upon the Company's recognition in accordance with GAAP of approximately \$6,200 of revenue which was deferred on the Company's balance sheet. During 2018, the Company recorded compensation expense for those vested awards based on the grant-date close price of the Company's common stock, or \$7.50, resulting in a non-cash compensation expense in the period of \$1,000. During 2019, the conditions were met for those remaining shares to vest and the Company recorded compensation expense of \$250 based on the grant-date close price of the Company's common stock, or \$7.50.

NOTE 14: LEASES

We adopted ASU No. 2016-02, *Leases* (Topic 842), as amended, on January 1, 2019 using the modified retrospective transition approach. We elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract was or contains a lease, and our initial direct costs for any leases that existed prior to January 1, 2019. We also elected to combine our lease and non-lease components. Upon adoption, we recognized total ROU assets of \$2,319, with corresponding liabilities of \$2,319 on the Consolidated Balance Sheets. This included \$54 of pre-existing finance lease ROU assets previously reported in computer equipment within property and equipment, net. The ROU assets include adjustments for prepayments and accrued lease payments. The effect of the adoption resulted in a \$171 cumulative effect adjustment to retained earnings on January 1, 2019.

We have entered into various non-cancelable operating lease agreements for certain of our offices and office equipment. Our leases have original lease periods expiring between 2021 and 2025. Many leases include one or more options to renew. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of lease costs, lease term and discount rate are as follows:

<i>(in thousands)</i>	Year Ended December 31, 2020	Year Ended December 31, 2019
Finance lease cost		
Amortization of right-of-use assets	\$ 20	\$ 32
Interest	2	5
Operating lease cost	626	736
Total lease cost	<u>\$ 648</u>	<u>\$ 773</u>
Weighted Average Remaining Lease Term		
Operating leases	3.8 years	3.4 years
Finance leases	0.9 years	1.2 years
Weighted Average Discount Rate		
Operating leases	10.0%	10.0%
Finance leases	14.0%	13.6%

The following is a schedule, by years, of maturities of lease liabilities as of December 31, 2020:

<i>(in thousands)</i>	Operating Leases	Finance Leases
2021	\$ 377	\$ 4
2022	294	-
2023	291	-
2024	81	-
Thereafter	74	-
Total undiscounted cash flows	1,117	4
Less imputed interest	(178)	-
Present value of lease liabilities	<u>939</u>	<u>4</u>
Lease liabilities, current	<u>355</u>	<u>4</u>
Lease liabilities, non-current	584	-
Present value of lease liabilities	<u>\$ 939</u>	<u>\$ 4</u>

Supplemental cash flow information related to leases are as follows:

<i>(in thousands)</i>	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 627	\$ 719
Operating cash flows from finance leases	2	1
Financing cash flows from finance leases	24	31

NOTE 15: PROFIT-SHARING PLAN

We have a defined contribution 401(k) retirement plans for eligible associates in the United States. Associates may contribute up to 15% of their pretax compensation to the plan subject to IRS limitations. Beginning on April 1, 2018, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%. The Company indefinitely suspended the employer match at the end of March 2020 in response to the uncertainty of the COVID-19 pandemic.

We have a Registered Retirement Savings Plan for eligible associates in Canada. Associates may contribute up to 18% of earned income reported on their tax return in the previous year, subject to legal contribution limits. Beginning on April 1, 2018, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%. The Company indefinitely suspended the employer match at the end of March 2020 in response to the uncertainty of the COVID-19 pandemic.

The Company contributed \$35 and \$155 to employee retirement plans for the year-ended December 31, 2020 and 2019, respectively.

NOTE 16: SEGMENT INFORMATION AND SIGNIFICANT CUSTOMERS/VENDORS

Segment Information

We currently operate in one reportable segment, marketing technology solutions. Substantially all property and equipment is located at our offices in the United States, and a data center located in the United States. All material sales for the years ended December 31, 2020 and 2019 were in the United States and Canada.

Significant Customers

We had two (2) and one (1) customer(s) that accounted for 27.8% and 18.5% of revenue for the years ended December 31, 2020 and 2019, respectively.

For the years ended December 31, 2020 and 2019, we had sales of \$1,058 (6.1% of consolidated sales) and \$1,103 (3.5% of consolidated sales), respectively, with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management (“33 Degrees”).

We had two (2) and one (1) customer(s) that in the aggregate accounted for 42.6% and 14.4% of accounts receivable as of December 31, 2020 and December 31, 2019, respectively. Accounts receivable due from 33 Degrees was \$40 and \$1 at December 31, 2020 and 2019, respectively.

Significant Vendors

We had two (2) and one (1) vendor(s) that accounted for 46.8% and 50% of outstanding accounts payable at December 31, 2020 and December 31, 2019, respectively.

NOTE 17: SUBSEQUENT EVENTS

Payroll Protection Program Loan

On January 11, 2021, Creative Realities, Inc. received a notice from Old National Bank regarding forgiveness of the loan in the principal amount of \$1,552 (the “PPP Loan”) that was made pursuant to the Small Business Administration Paycheck Protection Program under the Coronavirus Air, Relief and Economic Security Act of 2020. According to such notice, the full principal amount of the PPP Loan and the accrued interest have been forgiven. Accounting for the forgiveness will be recognized in the first quarter of 2021.

Registered Direct Offering

On February 18, 2021, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company’s common stock (the “Shares”), in a registered direct offering (the “Offering”) at a purchase price of \$2.50 per Share, for gross proceeds of \$2,000. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1,835, which the Company intends to use for general corporate purposes. The closing of the Offering occurred on February 22, 2021.

Debt Refinancing

On March 7, 2021, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream Communications, LLC (“Slipstream”), pursuant to an Amended and Restated Credit and Security Agreement (the “Credit Agreement”). The debt facilities continue to be fully secured by all assets of the Borrowers. The maturity date (“Maturity Date”) on the outstanding debt and new debt is extended to March 31, 2023. The Credit Agreement (i) provides a \$1,000 of availability under a line of credit (the “Line of Credit”), (ii) consolidates our existing term and revolving line of credit facilities into a new term loan (the “New Term Loan”) having an aggregate principal balance of approximately \$4,550 (including a 3.0% issuance fee capitalized into the principal balance), (iii) increases the outstanding special convertible term loan (the “Convertible Loan”) to approximately \$2,280 (including a 3.0% issuance fee capitalized into the principal balance), and (iv) extinguishes the outstanding obligations owed with respect to a \$264 existing disbursed escrow loan in exchange for shares of the Company’s common stock (the “Disbursed Escrow Conversion Shares”), valued at \$2.718 per share (the trailing 10-day VWAP as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement). The Line of Credit and Convertible Loan accrue interest at 10% per year, and the New Term Loan accrues interest at 8% per year. See Note 8 *Loans Payable* for additional information with respect to the Credit Agreement.

EXHIBIT INDEX

Exhibit No.	Description
2.1	<u>Amendment to Agreement and Plan of Merger and Reorganization and Waiver dated as of September 1, 2017 (incorporated by reference to the registrant's Form 10-Q filed with the SEC on November 14, 2017)</u>
2.2	<u>Stock Purchase Agreement, dated as of September 20, 2018, by and between the registrant and Christie Digital System, Inc. (incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on September 20, 2018).</u>
3.1	<u>Articles of Incorporation, as amended (incorporated by reference to registrant's Amendment No. 1 to Form SB-2 filed on October 12, 2006).</u>
3.2	<u>Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on September 17, 2014)</u>
3.3	<u>Articles of Amendment Filed on October 17, 2018 (incorporate by reference to Exhibit 3.3 to the registrant's registration statement on Form S-1 filed October 17, 2018)</u>
3.4	<u>Series A-1 Convertible Preferred Stock Certificate of Designation of Preferences, Rights and Limitations filed October 30, 2015 (incorporated by reference to Exhibit 4.2 of the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)</u>
3.5	<u>Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on September 17, 2014)</u>
3.6	<u>Articles of Amendment (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on October 16, 2014)</u>
3.7	<u>Articles of Amendment Filed on October 17, 2018 (incorporated by reference to Exhibit 3.3 to the registrant's registration statement on Form S-1 filed October 17, 2018)</u>
3.8	<u>Statement of Cancellation of Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on March 18, 2019)</u>
3.9	<u>Statement of Cancellation of Certificate of Designation of Series A-1 Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to the registrant's Form 8-K filed with the SEC on March 18, 2019)</u>
3.10	<u>Amended and Restated Bylaws (incorporated by reference to the registrant's Current Report on Form 8-K filed on November 2, 2011)</u>
4.1	<u>Specimen certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form SB-2 (File No. 333-136972))</u>
4.2	<u>Form of Indenture between the registrant and one or more trustees to be named (incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-3 (File No. 333-238275)</u>
4.3	<u>Form of Warrant Issued to Selling Stockholders (November 19, 2018 Issuance date) (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-3 (File No. 333-239108)</u>
4.4	<u>Warrant dated August 10, 2017, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form 10-Q filed with the SEC on November 14, 2017)</u>
4.5	<u>Warrant dated November 13, 2017, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)</u>
4.6	<u>Warrant dated January 16, 2018, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)</u>

Exhibit No.	Description
4.7	<u>Warrant to Purchase Common Stock issued to Slipstream Communications, LLC on April 27, 2018 (incorporated by reference to Exhibit 10.31 of the registrant's Form S-1 filed with the SEC on June 25, 2018).</u>
4.8	<u>Warrant to Purchase Common Stock (entered into in connection with Loan and Security Agreement dated August 17, 2016) (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 21, 2016)</u>
4.9	<u>Form of Investor Warrant issued November 19, 2018 (incorporated by reference to Exhibit 4.3 to the registrant's Amendment No. 5 to Form S-1/A filed with the SEC on November 14, 2018)</u>
4.10	<u>Form of Representative's Warrant (incorporated by reference to Exhibit 4.4 to the registrant's Amendment No. 3 to Form S-1/A filed with the SEC on October 22, 2018)</u>
4.11	<u>Description of Registrant's Securities (incorporated by reference to Exhibit 4.14 of Registrant's Annual Report on Form 10-K for the fiscal year ended 12/31/2019)</u>
10.1	<u>Security Agreement dated February 18, 2015, by and among Creative Realities, Inc. and Broadcast International, Inc., Creative Realities, LLC, and Wireless Ronin Technologies Canada, Inc. (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed with the SEC on February 24, 2015)</u>
10.2	<u>Subordinated Secured Promissory Note issued on May 20, 2015 to Slipstream Communications, LLC, in the original principal amount of \$465,000 (incorporated by reference to the registrants Quarterly Report on Form 10-Q filed with the SEC on August 14, 2015)</u>
10.3	<u>Form of Secured Convertible Promissory Note (for use in connection with Form of Securities Purchase Agreement dated June 23, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the SEC on July 9, 2015)</u>
10.4	<u>Form of Security Agreement (for use in connection with Form of Securities Purchase Agreement dated June 23, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the SEC on July 9, 2015)</u>
10.5	<u>Form of Secured Convertible Promissory Note (for use in connection with Form of Securities Purchase Agreement dated December 28, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)</u>
10.6	<u>Form of Registration Rights Agreement (for use in connection with Form of Securities Purchase Agreement dated December 28, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)</u>
10.7	<u>Loan and Security Agreement with Slipstream Communications, LLC, dated as of August 17, 2016 (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 21, 2016)</u>
10.8	<u>First Amendment to Loan and Security Agreement dated as of August 10, 2017 among Slipstream Communications, LLC, registrant and registrant's subsidiaries. (incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on March 26, 2018).</u>
10.9	<u>Second Amendment to Loan and Security Agreement dated as of November 13, 2017 among Slipstream Communications, LLC, registrant and registrant's subsidiaries. (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018).</u>

Exhibit No.	Description
10.10	Third Amendment to Loan and Security Agreement dated as of January 16, 2018 among Slipstream Communications, LLC, registrant and registrant's subsidiaries. (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.11	Secured Term Promissory Note in favor of Slipstream Communications, LLC (entered into in connection with Loan and Security Agreement dated August 17, 2016) (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 21, 2016)
10.12	Secured Revolving Promissory Note in favor of Slipstream Communications, LLC (entered into in connection with Third Amendment to Loan and Security Agreement dated January 16, 2018) subsidiaries (incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on March 26, 2018).
10.13	Fourth Amendment to Loan and Security Agreement with Slipstream Communications, LLC, dated as of April 27, 2018 (incorporated by reference to Exhibit 10.31 of the registrant's Form S-1 filed with the SEC on June 25, 2018).
10.14	Second Allonge to Secured Revolving Promissory Note issued in favor of Slipstream Communications, LLC., dated as of April 27, 2018. (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.15	Second Allonge to Amended and Restated Secured Term Promissory Note issued in favor of Slipstream Communications, LLC., dated as of April 27, 2018 (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.16	Secured Disbursed Escrow Promissory Note issued in favor of Slipstream Communications, LLC, in principal amount of \$264,000 dated as of April 27, 2018 (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.17**	Employment Agreement with Richard Mills (incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on March 28, 2017)
10.18	Form of Securities Purchase Agreement dated June 23, 2015 (incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the SEC on July 9, 2015)
10.19	Form of Warrant Agency Agreement between the Company and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.5 of the registrant's registration statement on Form S-1 filed October 22, 2018)
10.20**	2014 Stock Incentive Plan as amended (incorporated by reference to the registrant's definitive proxy statement filed with the SEC on July 24, 2018)
10.21	Fifth Amendment to Loan and Security Agreement (incorporated by reference to Exhibit 10.1 of registrant's report on Form 8-K filed with the SEC on November 20, 2018)
10.22	Third Allonge to Amended and Restated Secured Term Promissory Note issued in favor of Slipstream Communications, LLC (incorporated by reference to Exhibit 10.2 of registrant's report on Form 8-K filed with the SEC on November 20, 2018)
10.23	Amended and Restated Convertible Promissory Note dated November 20, 2018 issued by Allure Global Solutions, Inc. in favor of Christie Digital Systems, Inc. (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on November 26, 2018)
10.24**	Restricted Stock Agreement dated December 14, 2018 with Richard Mills (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on December 20, 2018)
10.25	Seventh Amendment to Loan and Security Agreement dated December 30, 2019 by and among the Company, its Subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on January 3, 2020)
10.26	Secured Convertible Special Loan Promissory Notes dated December 30, 2019 issued by the Company to Slipstream Communications, LLC (incorporated by reference to Exhibit 10.2 of the registrant's report on Form 8-K filed with the SEC on January 3, 2020)
10.27	Eighth Amendment to Loan and Security Agreement dated April 1, 2020 by and among the Company, its Subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on April 6, 2020)
10.28**	Form of Letter Agreement (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on June 3, 2020)

Exhibit No.	Description
10.29	Master Distribution Agreement dated June 19, 2020 by and between the Company and InReality, LLC (incorporated by reference to Exhibit 10.1 of the registrant’s report on Form 8-K filed with the SEC on June 19, 2020)
10.30	Ninth Amendment to Loan and Security Agreement dated September 29, 2020 by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant’s report on Form 8-K filed with the SEC on October 2, 2020)
10.31	Tenth Amendment to Loan and Security Agreement dated November 30, 2020 by and among the Company, its subsidiaries and Slipstream Communications, LLC. (incorporated by reference to Exhibit 10.1 of the registrant’s report on Form 8-K filed with the SEC on November 30, 2020)
10.32	Eleventh Amendment to Loan and Security Agreement dated December 31, 2020 by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant’s report on Form 8-K filed with the SEC on January 7, 2021)
10.33	Twelfth Amendment to Loan and Security Agreement dated January 31, 2021 by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant’s report on Form 8-K filed with the SEC on February 3, 2021)
10.34	Securities Purchase Agreement dated February 18, 2021 by and between Creative Realities, Inc. and purchaser identified on the signature page thereto (incorporated by reference to Exhibit 10.1 of the registrant’s report on Form 8-K filed with the SEC on February 19, 2021)
10.35	Thirteenth Amendment to Loan and Security Agreement dated February 28, 2021 by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant’s report on Form 8-K filed with the SEC on March 4, 2021)
10.36	Amended and Restated Loan and Security Agreement by and among the Company, its subsidiaries and Slipstream Communications, LLC
14.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 of the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 of Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018)
23.1	Consent of EisnerAmper LLP*
23.2	Consent of Deloitte & Touche LLP*
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).*
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.*
99.1	Press Release dated March 9, 2020*+
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

* Filed herewith

** Compensatory Plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

+ This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this “**Agreement**”), dated as of March 7, 2021 (the “**Execution Date**”), is by and among Creative Realities, Inc., a Minnesota corporation (“**CRI**”), Creative Realities, LLC, a Delaware limited liability company (“**CRLLC**”), Creative Realities Canada, Inc., an Ontario corporation (“**CRCI**”), Conexus World Global, LLC, a Kentucky limited liability company (“**Conexus**”), and Allure Global Solutions, Inc., a Georgia corporation (“**AGSI**” and together with CRI, CRLLC, CRCI and Conexus, collectively, referred to herein as, the “**Borrower**”); and Slipstream Communications, LLC, an Anguillan limited liability company (“**Lender**”).

RECITALS

A. Borrower (other than CRCI and other than AGSI which became a party thereto pursuant to a Joinder Agreement dated November 20, 2018) and Lender previously entered into that certain Loan and Security Agreement dated August 17, 2016 (as amended from time to time prior to the date hereof, the “**Existing Credit Agreement**”) pursuant to which Lender made: (i) a revolving loan to Borrower in the original principal amount of up to \$1,000,000.00 (the “**Existing Revolving Loan**”); (ii) a term loan to Borrower in the original principal amount of \$3,000,000.00 (the “**Existing Term Loan**”); (iii) a term loan to Borrower in the original principal amount of \$264,000.00 (the “**Existing Disbursed Escrow Loan**”); (iv) a convertible term loan to Borrower in the original principal amount of \$2,000,000.00 (the “**Existing Special Convertible Loan**” and together with each of the loans set forth in (i) through (iii) above, collectively, the “**Existing Loans**”). Each of the Existing Loans is evidenced by a promissory note with a maximum principal amount equal to the amount of the Existing Loan set forth in this Recital A (collectively, the “**Existing Notes**”).

B. As of the date hereof, the outstanding principal amount together with accrued and unpaid interest of the Existing Loans evidenced by the Existing Notes are as follows: (i) the Existing Note evidencing the Existing Revolving Loan, \$1,000,000.00 principal plus accrued but unpaid interest of \$104,666.97; (ii) the Existing Note evidencing the Existing Term Loan, \$3,000,000.00 principal plus accrued but unpaid interest of \$314,000.91; (iii) the Existing Note evidencing the Existing Disbursed Escrow Loan, \$264,000.00 plus zero accrued but unpaid interest; (iv) the Existing Special Convertible Loan evidenced by the Existing Special Convertible Loan, \$2,000,000.00 plus accrued but unpaid interest of \$216,602.30 (the principal amounts outstanding plus the accrued but unpaid interest thereon as of the Closing Date, collectively referred to herein as, the “**Existing Advances**”).

C. Borrower has requested that Lender continue to make loans and other financial accommodations available to Borrower and Lender has agreed to the amendment and restatement of the Existing Credit Agreement and replacement of the Existing Notes by the terms of this Agreement so long as (i) the security interests, Liens and pledges granted to the Lender in the Existing Credit Agreement are preserved and reaffirmed, (ii) the execution and delivery of this Agreement and the documents and instruments executed in connection herewith not (a) effect a discharge or novation of any indebtedness or other obligation of the Borrower (other than CRCI) under the Existing Credit Agreement or any of the Existing Notes, but rather (for all but CRCI) a substitution of certain of the terms governing the payment and performance of such indebtedness and other obligations, or (b) release Borrower of any of its Obligations under any Loan Documents or adversely affect any of the Lender’s rights under any of the Loan Documents, except for the release of Borrower’s Obligations under the Existing Note evidencing the Existing Disbursed Escrow Loan upon Borrower’s issuance of the Disbursed Escrow Conversion Shares in accordance with Section 1.5, below, (iii) all security agreements, Liens, security interests, pledges and guarantees granted in accordance with the Existing Credit Agreement remain in full force and effect in favor of the Lender, and (iv) CRCI becomes a Borrower under this Agreement and executes such other loan documents as may be required by the Lender, pursuant to which CRCI will also pledge and grant a Lien on all of its personal property assets to secure its obligations under this Agreement.

D. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in *Schedule A*.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants herein contained, the parties hereby agree as follows:

1. AMOUNT AND TERMS OF CREDIT

1.1 **Existing Advances.** Borrower acknowledges and agrees that (a) as of the Execution Date, the outstanding principal balance of the Existing Advances including accrued and unpaid interest under the Existing Notes are as set forth in Recital B, above; (b) on the Closing Date, (i) the Existing Credit Agreement and the Existing Notes shall be amended, restated, replaced and superseded in their entirety by this Agreement and the Notes (as defined below), (ii) the Existing Advances outstanding under the Existing Revolving Loan and the Existing Term Loan together with the accrued but unpaid interest thereon from the Effective Date to the Closing Date shall be deemed to be advances under the Consolidation Term Loan made pursuant to Section 1.3, below; (iii) the Existing Advances outstanding under the Existing Special Convertible Loan together with all accrued but unpaid interest thereon from the Execution Date to the Closing Date shall be deemed to be advances under the Special Convertible Term Loan made pursuant to Section 1.4, below; and (iv) the Existing Advances under the Existing Disbursed Escrow Loan shall be converted into shares of CRI's common stock pursuant to Section 1.5, below.

1.2 **Multi-Advance Line of Credit.** Subject to the terms and conditions of this Agreement, upon Borrower's request, Lender may, in its sole discretion, but without any obligation, make Advances under a Multi-Advance Line of Credit (the "**Line of Credit**") to Borrower under this Section 1.2 from time to time, up to and including the Conversion Date, in a total amount at any time outstanding not to exceed \$1,000,000.00 subject to reduction as set forth in this Agreement (the "**Maximum Line of Credit Amount**"). So long as no Event of Default has occurred and is continuing, Borrower may request Advances under the Line of Credit (a) with 30 days written notice to the Lender and (b) in a minimum Advance amount of \$500,000.00. Advances repaid under the Line of Credit may be readvanced on or before the Conversion Date. Amounts outstanding under the Line of Credit from time to time shall be evidenced by a promissory note in form and substance acceptable to the Lender (the "**Line of Credit Note**").

1.3 **Consolidation Term Loan.** Subject to the terms and conditions of this Agreement, Lender is hereby deemed to make an Advance on the Closing Date under a term loan (the "**Consolidation Term Loan**") in the principal amount equal to the product of 1.03 times the sum of the Existing Advances outstanding on the Closing Date under the Existing Revolving Loan and the Existing Term Loan (which as of the Closing Date are deemed made under the Consolidation Term Loan to Borrower). For purposes of clarity, it is understood that in making the Consolidation Term Loan the Lender is not providing any additional funds to Borrower. Amounts repaid under the Consolidation Term Loan may not be reborrowed. The Consolidation Term Loan shall be evidenced by a promissory note in form and substance acceptable to the Lender (the "**Consolidation Term Note**," which shall be delivered in restatement of and replacement for (but not in repayment or satisfaction of) the Existing Notes evidencing the Existing Revolving Loan and the Existing Term Loan.

1.4 Special Convertible Term Loan. Subject to the terms and conditions of this Agreement, Lender is hereby deemed to make an Advance on the Closing Date under a term loan (the “**Special Convertible Term Loan**”) in the principal amount equal to the product of 1.03 times the Existing Advance outstanding on the Closing Date under the Existing Special Convertible Term Loan (which as of the Closing Date is deemed made under the Special Convertible Term Loan to Borrower). For purposes of clarity, it is understood that in making the Special Convertible Term Loan the Lender is not providing any additional funds to Borrower. Amounts repaid under the Special Convertible Term Loan may not be reborrowed. The Special Convertible Term Loan shall be evidenced by a promissory note in form and substance acceptable to the Lender (the “**Special Convertible Term Note**,” which shall delivered in restatement of and replacement for (but not in repayment or satisfaction of) the Existing Note evidencing the Existing Special Convertible Term Loan.

1.5 Conversion of Existing Disbursed Escrow Loan. On the Closing Date, Borrower shall issue to Lender (or Lender’s designee) 97,144 shares of the common stock of CRI (the “**Disbursed Escrow Conversion Shares**”) in full satisfaction of the amounts outstanding under the Existing Disbursed Escrow Loan. Lender acknowledges and agrees that upon Borrower’s delivery of the Disbursed Escrow Conversion Shares, the Obligations of the Borrower under the Existing Note evidencing the Existing Disbursed Escrow Loan shall be deemed paid-in-full and Borrower shall not have any further obligation to Lender thereunder whether or not the Lender marks the Existing Note evidencing the Existing Disbursed Escrow Loan “cancelled” or “paid-in-full” and returns such note to the Borrower (and Lender hereby agrees to make a reasonable effort to do so). Borrower shall deliver confirmation from CRI’s transfer agent of the issuance of the Disbursed Escrow Conversion Shares.

1.6 Evidence of Indebtedness; Single Loan. Each of the loans set forth in Sections 1.2 through 1.4, above (collectively referred to herein as, the “**Loans**”) shall be evidenced by this Agreement. Upon the request of Lender, Borrower will execute and deliver a promissory note evidencing any or all of the Loans then outstanding. The Loans and all other Obligations of the Borrower to Lender arising in connection with this Agreement and the other Loan Documents shall constitute one general obligation of Borrower, secured by all of the Collateral.

1.7 Use of Proceeds. Borrower shall use the proceeds of the Loans solely for working capital and general business requirements of the Borrower.

1.8 Interest. Borrower shall pay interest to Lender on the outstanding balance of the Loans at the applicable Loan Rate. All computations of interest shall be made by Lender on the basis of a 360-day year, in each case for the actual number of days occurring in the period for which such interest or fee is payable. In no event will Lender charge interest at a rate exceeding the highest rate of interest permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Effective upon the occurrence of an Event of Default and so long as the same shall be continuing, the Loan Rate shall automatically be increased by six percentage points *per annum* (6.0%) (such increased rate, the “**Default Rate**”). Notwithstanding anything to the contrary, that portion of any interest which is the Default Rate shall be paid in cash. In the event that the Loan Rate or the Default Rate exceeds the highest rate of interest permissible under applicable law, then the Loan Rate and/or the Default Rate shall be the maximum amount as allowed by applicable law. Interest shall accrue on the principal balance of the Loans and shall be paid on a monthly basis and all then-accrued but unpaid interest shall be paid on the Maturity Date. All accrued and unpaid interest existing after the Termination Date, interest shall be paid upon demand made by Lender.

1.9 Fees. Borrower shall pay a fully earned and non-refundable fee equal to 3.0% of the original principal balance of the Consolidating Term Loan and the Special Convertible Term Loan. The fee for each loan shall be paid by capitalizing it in the original principal balance of each applicable Loan (as evidenced by the multiplier in Sections 1.3 and 1.4, above), and it is understood that the Lender is not lending any additional funds to Borrower for purposes of Borrower paying said fees.

1.10 Payments. Borrower hereby jointly and severally promises to pay the amounts outstanding under the Loans as follows:

(a) **PIK Interest Only.** Commencing on the first day of the month immediately following the Closing Date and each month thereafter, up to and including October 1, 2021, accrued interest shall be paid-in-kind (“**PIK**”) by the Borrower and added to the outstanding principal balance of each of the Loans.

(b) **Cash Interest Only.** Commencing on November 1, 2021 and on the first day of each month, up to and including (i) March 1, 2022 in the case of the Line of Credit and the Special Convertible Loan, Borrower shall make a payment of any accrued and unpaid interest (other than PIK interest previously capitalized as set forth in subsection (a), above), to Lender in cash or shares of the common stock of CRI, to the extent permitted by Section 1.11, below, such payment method at the sole discretion of the Borrower and subject to Section 1.11; and (ii) the Maturity Date, in the case of the Consolidation Term Loan, Borrower shall make a payment of any accrued and unpaid interest (other than PIK interest previously capitalized as set forth in subsection (a), above), to Lender in cash. Notwithstanding anything to the contrary, as and to the extent Borrower repays any principal of the Line of Credit, other than in cash, the Maximum Line of Credit Amount shall be permanently reduced by such amount.

(c) **Principal and Interest.** Commencing on April 1, 2022, and on the first day of each month thereafter until the Maturity Date, Borrower shall make a payment in cash or shares of the common stock of CRI, to the extent permitted by Section 1.11, and subject to the terms of Section 1.11, in an equal monthly installment of principal with respect to the Line of Credit and the Special Convertible Loan sufficient to fully amortize the Line of Credit and the Special Convertible Term Loan on the Maturity Date, together with any accrued but unpaid interest outstanding under each such Loan.

(d) **Payment in full at Maturity.** On the Maturity Date, Borrower shall pay all outstanding principal on the Loans together with any accrued and unpaid interest related thereto.

If any interest or any other payment to Lender under this Agreement becomes due and payable on a day other than a Business Day, such payment date shall be extended to the next succeeding Business Day.

1.11 Payments on Line of Credit and Special Convertible Term Loan Made in CRI Common Stock. Subject to Sections 1.14 and 8, at the election of Borrower (in its sole discretion), any or all payments of principal and interest on the Line of Credit and Special Convertible Term Loan may be made to Lender (or Lender’s designee) in shares of CRI’s common stock (the “**Payment Shares**,” and together with the Disbursed Escrow Conversion Shares and any share of capital into which such common stock shall have been changed or any share capital resulting from a reclassification of such common stock, the “**Shares**”). Payment Shares will be valued at a 30% discount to the volume-weighted average price (VWAP) of a share of CRI common stock over the ten (10) closing price of CRI common stock on the trading days immediately prior to the date of payment, as reported on the Nasdaq Capital Market; provided, however that the Payment Shares shall not be valued below \$0.50 per Share (the “**Payment Share Floor**”).

1.12 Prepayment Premium. Borrower may prepay all or a portion of any Loan at any time without premium or penalty.

1.13 **Receipt of Payments.** Borrower shall make each payment under this Agreement without set-off, counterclaim or deduction, and free and clear of all Taxes, not later than 5:00 p.m., New York City time on the day when due in lawful money of the United States of America in immediately available funds to such account as Lender shall designate in writing to CRI from time to time (the “**Payment Account**”). For purposes of computing interest and fees, all payments shall be deemed received by Lender on the day of receipt of immediately available funds. Except as expressly set forth in this Section 1 with respect to payments of principal and interest, all payments of principal, interest, fees and other Obligations shall be paid in cash in U.S. Dollars.

1.14 **Bankruptcy Event; Restrictions on Issuances of Shares.** Notwithstanding anything to the contrary, including the provisions of this Section 1 and Section 8.2, in the event (a) of any Bankruptcy Event, effective immediately prior thereto, (b) any issuance of Shares is prohibited by Section 8.2 or (c) the valuation of the Payment Shares set forth in Section 1.11 determined in anticipation of a payment in Shares is less than the Payment Share Floor, all payments pursuant to this Agreement which Borrower is obligated to, or has the right to, pay in Shares, shall be paid in U.S. Dollars.

1.15 **Failure to Pay in Full.** In the event that at any time any payments are due under this Agreement and less than the full amount is paid by Borrower, such payments shall first be applied in unpaid fees, then to accrued but unpaid interest on each Loan in such amounts as Lender in its sole and complete discretion shall determine and then to all principal then due in such amount for each Loan as Lender in its sole and complete discretion shall determine.

1.16 **Joinder.** By executing and delivering this Agreement, CRCI hereby becomes a party hereto and a Borrower hereunder.

2. CONDITIONS

2.1 **Conditions Precedent.** Lender shall not be obligated to make any Advance, or to perform any other action hereunder and the Existing Credit Agreement shall remain in effect, until, all of the following conditions have been satisfied in form and substance satisfactory to Lender and its counsel:

- (i) the Loan Documents have been executed and delivered by the Borrower on or before the Closing Date, including for purposes of clarity appropriate UCC-3 amendments to financing statements continuing the UCC-1 financing statements filed under the Existing Credit Agreement and, as applicable, amending CRI’s address thereunder, and Lender and its counsel shall have received evidence of the filing thereof;
- (ii) Lender has received executed Notes, with the principal amounts filled in pursuant to this Agreement;
- (iii) Officers’ Certificates by officers of each Borrower; and
- (iv) Within five (5) business days after the Execution Date, deliver Canadian security interest recording and proof of recording and equivalent of a first priority perfected security interest in Collateral owned by CRCI;
- (v) Within five (5) business days after the Execution Date, deliver to Lender UCC (or in the case of CRCI, the PPSA), judgment, and tax lien search results with respect to Borrower from each Borrower’s jurisdiction of formation; and.

2.2 **Additional Conditions.** The obligations of the Lender hereunder in connection with the Closing are subject to the following conditions being met:

- (i) The accuracy in all material respects when made and on the Closing Date of the representations and warranties of the Borrower contained herein (unless as of a specific date herein);
- (ii) all obligations, covenants and agreements of the Borrower required to be performed at or prior to the Closing Date shall have been performed;
- (iii) the delivery by the Borrower of the items set forth in Section 2.1 of this Agreement; and
- (iv) there shall have been no Material Adverse Effect with respect to the Borrower since the date hereof.

2.3 **Conditions Subsequent.** Borrowers shall hereby satisfy the following conditions on or before the date set forth for each condition below, each in form and substance acceptable to the Lender and its counsel:

- (i) Within five (5) business days after the Closing Date, issue to the Lender or its designee a certificate in proper form representing the Disbursed Escrow Conversion Shares pursuant to Section 1.5, above.

3. REPRESENTATIONS, WARRANTIES AND COVENANTS

To induce Lender to enter into this Agreement and to make the Loans, each Borrower hereby jointly and severally represents and warrants to Lender (each of which representations and warranties shall survive the execution and delivery of this Agreement), and promises to and agrees with Lender until the Termination Date as follows:

3.1 **Corporate Existence; Compliance with Law.** Each Borrower: (a) is, as of the Closing Date, and will continue to be (i) a corporation (or in the case of both Conexus and CRLLC, a limited liability company) duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, (ii) duly qualified to do business and in good standing (or comparable status in the case of CRCI) in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect, and (iii) in compliance with all Requirements of Law, except to the extent failure to comply therewith could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (b) has and will continue to have (i) the requisite corporate (or in the case of both Conexus CRLLC, a limited liability company) power and authority and the legal right to execute, deliver and perform its obligations under the Loan Documents, and to own, pledge, mortgage or otherwise encumber and operate its properties, to lease the property it operates under lease, and to conduct its business as now, heretofore or proposed to be conducted, and (ii) all licenses, permits, franchises, rights, powers, consents or approvals from or by all Persons or Governmental Authorities having jurisdiction over such Borrower that are necessary or appropriate for the conduct of its business.

3.2 **Executive Offices; Corporate or Other Names.** (a) Each Borrower's name as it appears in official filings in the state or province of its incorporation or organization, (b) the type of entity of each Borrower, (c) the organizational identification number issued by each Borrower's state or province of incorporation or organization or a statement that no such number has been issued, (d) each Borrower's state or province of organization or incorporation, and (e) the location of each Borrower's chief executive office, corporate offices, other locations of Collateral and locations where records with respect to Collateral are kept, are as set forth in **Disclosure Schedule 3.2** and, except as set forth in such schedule, such locations have not changed during the preceding 12 months.

3.3 Corporate Power; Authorization; Enforceable Obligations. The execution, delivery and performance by each Borrower of the Loan Documents to which it is a party, and the creation of all Liens provided for herein and therein: (a) are and will continue to be within the Borrower's power and authority; (b) have been and will continue to be duly authorized by all necessary or proper action; (c) are not and will not be in violation of any Requirement of Law or, conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of Borrower, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Borrower debt or otherwise) or other understanding to which Borrower is a party or by which any property or asset of Borrower is bound or affected or any other Contractual Obligation of Borrower; (d) do not and will not result in the creation or imposition of any Lien (other than Permitted Encumbrances) upon any of the Collateral; and (e) except as set forth in Section 8.3, below, do not and will not require the consent or approval of any Governmental Authority or any other Person. As of the Closing Date, each Loan Document shall have been duly executed and delivered on behalf of Borrower, and each such Loan Document upon such execution and delivery shall be and will continue to be a legal, valid and binding obligation of Borrower, enforceable against it in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency and other similar laws affecting creditors' rights generally. The Disbursed Escrow Conversion Shares and all other Shares, when issued in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, free and clear of all Liens imposed by any Borrower other than restrictions on transfer provided for in applicable securities laws.

3.4 Financial Statements; Books and Records. All Financial Statements are true, correct and complete and reflect fairly and accurately the financial condition of Borrower (on a consolidated basis) as of the date thereof in accordance with GAAP, except (solely with respect to any interim Financial Statements) the absence of footnotes and normal year-end adjustments. Borrower shall keep adequate Books and Records with respect to the Collateral and its business activities in which proper entries, reflecting all consolidated and consolidating financial transactions, and payments and credits received on, and all other dealings with, the Collateral, will be made in accordance with GAAP and all Requirements of Law and on a basis consistent with the Financial Statements.

3.5 Material Adverse Change. Since the date of Borrower's most recently audited Financial Statements, no events have occurred that alone or in the aggregate has had or could reasonably be expected to have a Material Adverse Effect. Borrower is not in default, and to Borrower's knowledge no third party is in default, under or with respect to any of its Contractual Obligations, that alone or in the aggregate has had or could reasonably be expected to have a Material Adverse Effect.

3.6 No Default or Event of Default. As of the Execution Date and as of the Closing Date there is no Default or Event of Default (both as defined in the Existing Agreement) shall have occurred and be continuing.

3.7 Real Estate; Property. The real estate listed in *Disclosure Schedule 3.7* constitutes all of the real property owned, leased, or used by Borrower in its business, and Borrower will not execute any material agreement or contract in respect of such real estate after the date of this Agreement without giving Lender written notice thereof. Borrower holds and will continue to hold good and marketable fee simple title to all of its owned real estate, and good and marketable title to all of its other properties and assets, and valid and insurable leasehold interests in all of its leases (both as lessor and lessee, sublessee or assignee), and none of the properties and assets of Borrower are or will be subject to any Liens, except Permitted Encumbrances.

3.8 Outstanding Indebtedness. All outstanding Indebtedness of Borrower as of the Closing Date, including a statement as to whether such Indebtedness is secured or unsecured and, if secured, what constitutes the collateral security therefor, is disclosed on *Disclosure Schedule 3.8*.

3.9 Government Regulation. Borrower is not subject to or regulated under any domestic or foreign federal, national, provincial or state statute, rule or regulation that restricts or limits such Person's ability to incur Indebtedness, pledge its assets, or to perform its obligations under the Loan Documents. The making of the Loan, the application of the proceeds and repayment thereof, and the consummation of the transactions contemplated by the Loan Documents do not and will not violate any Requirement of Law.

3.10 Taxes. Except as disclosed in *Disclosure Schedule 3.10*, all Tax returns, reports and statements required by any Governmental Authority to be filed by Borrower has, as of the Closing Date, been filed and will, until the Termination Date, be filed with the appropriate Governmental Authority and no Tax Lien has been filed against Borrower or its property. Proper and accurate amounts have been and will be withheld by Borrower from its employees for all periods in compliance with all Requirements of Law and such withholdings have and will be timely paid to the appropriate Governmental Authorities. Except as described on *Disclosure Schedule 3.10*, (i) no Borrower is liable for any Taxes of any other Person pursuant to any agreement, and (ii) to Borrower's knowledge, no Borrower is liable for any Taxes as a transferee.

3.11 Litigation. No Litigation is pending or, to the knowledge of Borrower, threatened by or against Borrower or against its properties or revenues (a) with respect to any of the Loan Documents or any of the transactions contemplated hereby or thereby, or (b) that could reasonably be expected to have a Material Adverse Effect. Except as set forth in *Disclosure Schedule 3.11*, as of the Closing Date there is no Litigation pending or threatened against Borrower that seeks damages in excess of \$10,000 or injunctive relief, or that alleges criminal misconduct of Borrower. Borrower shall notify Lender promptly in writing upon learning of the existence, threat or commencement of any Litigation against Borrower or any allegation of criminal misconduct against Borrower.

3.12 Intellectual Property. As of the Closing Date, Borrower owns, or is licensed to use, all Intellectual Property necessary to conduct its business as currently conducted except for such Intellectual Property the failure of which to own or license could not reasonably be expected to have a Material Adverse Effect. Borrower will maintain the patenting and registration of all Intellectual Property with the United States Patent and Trademark Office, the United States Copyright Office, or other appropriate Governmental Authority and Borrower will promptly patent or register, as the case may be, all material new Intellectual Property.

3.13 Conduct of Business. Borrower (a) shall conduct its business substantially as now conducted or as otherwise permitted hereunder, and (b) shall at all times maintain, preserve and protect all of the Collateral and Borrower's other property, used or useful in the conduct of its business and keep the same in good repair, working order and condition (ordinary wear and tear excepted) and make, or cause to be made, all necessary or appropriate repairs, replacements and improvements thereto consistent with industry practices.

3.14 SEC Filings. CRI has filed all reports, schedules, forms, statements and other documents required to be filed by CRI under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "**SEC Reports**") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. CRI has never been an issuer subject to Rule 144(i) under the Securities Act.

3.15 **Solvency.** Each of the Borrowers is solvent.

3.16 **Full Disclosure.** No information contained in any Loan Document, the Financial Statements or any written statement furnished by or on behalf of Borrower under any Loan Document, or to induce Lender to execute the Loan Documents, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading in light of the circumstances under which they were made.

3.17 **Reservation of Securities.** CRI shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Warrants in such amounts as may then be required to issue all of the shares underlying the Warrants.

3.18 **Further Assurances.** At any time and from time to time, upon the written request of Lender and at the sole expense of Borrower, Borrower shall promptly and duly execute and deliver any and all such further instruments and documents and take such further action as Lender may reasonably deem desirable (a) to obtain the full benefits of this Agreement and the other Loan Documents, (b) to protect, preserve and maintain Lender's rights in any Collateral, or (c) to enable Lender to exercise all or any of the rights and powers herein granted.

4. REPORTS AND NOTICES

4.1 **Reports and Information.** From the Closing Date until the Termination Date, Borrower shall deliver to Lender such reports and information as Lender may reasonably request.

4.2 **Notices.** Borrower shall advise Lender promptly, in reasonable detail, of: (a) any Lien, other than Permitted Encumbrances, attaching to or asserted against any of the Collateral; or (b) the occurrence of any Default or other event that has had or could reasonably be expected to have a Material Adverse Effect.

5. NEGATIVE COVENANTS

Borrower covenants and agrees that, without Lender's prior written consent, from the Closing Date until the Termination Date, Borrower shall not, directly or indirectly, by operation of law or otherwise:

(a) form any subsidiary or merge with or into, consolidate with, acquire all or substantially all of the assets or capital stock of, or otherwise combine with or make any investment in or make any loan or advance to, any Person;

(b) cancel any debt owing to it or create, incur, assume or permit to exist any Indebtedness, except: (i) the Obligations, (ii) Indebtedness existing as of the Closing Date (including increases, extensions, renewals and replacements thereof) and listed on **Disclosure Schedule 3.8**, (iii) deferred Taxes, (iv) by endorsement of Instruments or items of payment for deposit to the general account of Borrower, (v) Purchase Money Indebtedness, (v) unsecured Indebtedness incurred after the Closing Date that is junior to the Obligations in an aggregate amount outstanding at any time not to exceed \$500,000;

(c) make any changes in any of its business objectives, purposes, or operations that could reasonably be expected to adversely affect repayment of the Obligations or could reasonably be expected to have a Material Adverse Effect or engage in any business other than that presently engaged in or proposed to be engaged in on the Closing Date, or amend its Articles of Incorporation (or Articles or Certificate of Organization, as applicable) or Bylaws or other organizational documents;

(d) create or permit any Lien on any of its properties or assets, except for Permitted Encumbrances including those set forth on **Disclosure Schedule 5(d)**;

(e) sell, transfer, issue, convey, assign or otherwise dispose of any of its material assets or properties;

(f) change (i) its name as it appears in official filings in the state or province of its incorporation or organization, (ii) its chief executive office, corporate offices or other Collateral locations, or location of its records concerning the Collateral, (iii) the type of legal entity that it is, (iv) its organization identification number, if any, issued by its state or province of incorporation or organization, or (v) its state or province of incorporation or organization, in each instance without giving at least 30 days prior written notice thereof to Lender and taking all actions, at Borrower's expense, deemed necessary or appropriate by Lender to continuously protect and perfect Lender's Liens upon the Collateral; and

(g) make or permit any Restricted Payment.

6. SECURITY INTEREST

6.1 **Grant of Security Interest.** As collateral security for the prompt and complete payment and performance of the Obligations, each Borrower hereby grants to the Lender a security interest in and Lien upon (and all such comparable rights under the PPSA with respect to CRCI) all of its property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title, or interest, including without limitation all of the following property (collectively, the "**Collateral**"):

(i) all Accounts, as such capitalized term is defined in the Code;

(ii) all Deposit Accounts, as such capitalized term is defined in the Code, all other bank accounts and all funds on deposit therein;

(iii) all money, cash and cash equivalents;

(iv) all Investment Property, as such capitalized term is defined in the Code;

(v) all stock; provided however in the case of the stock of CRCI, only 60% of its voting stock);

(vi) all Goods, including Inventory, Equipment and Fixtures, as such capitalized terms are defined in the Code;

(vii) all Chattel Paper, Documents and Instruments, as such capitalized terms are defined in the Code;

(viii) all Books and Records;

(ix) all General Intangibles, including all Intellectual Property, contract rights, choses in action, Payment Intangibles and Software, as such capitalized terms are defined in the Code;

(x) all Letter-of-Credit Rights, as such capitalized term is defined in the Code;

(xi) all Supporting Obligations, as such capitalized term is defined in the Code; and

(xii) to the extent not otherwise included, all Proceeds (as such capitalized term is defined in the Code), tort claims, insurance claims and other rights to payment not otherwise included in the foregoing, and products of all and any of the foregoing and all accessions to, substitutions and replacements for, and rents and profits of, each of the foregoing.

6.2 Other Agreements and Acknowledgments. Each Borrower and Lender agree that this Agreement creates, and is intended to create, valid and continuing Liens upon the Collateral in favor of Lender in the manner described herein. Borrower represents, warrants and promises to Lender that: (i) Borrower has rights in and the power to transfer each item of the Collateral upon which it purports to grant a Lien pursuant to the Loan Documents, free and clear of any and all Liens or claims of others, other than Permitted Encumbrances; (ii) the security interests granted pursuant to this Agreement will, upon completion of filings and other actions required under applicable law, constitute valid perfected security interests in all of the Collateral in favor of the Lender as security for the prompt and complete payment and performance of the Obligations, enforceable in accordance with the terms hereof against any and all creditors of and purchasers from Borrower (other than purchasers of Inventory in the ordinary course of business) and such security interests will, upon the satisfaction of the aforementioned conditions, be prior to all other Liens on the Collateral in existence on the date hereof except for Permitted Encumbrances that have priority by operation of law; and (iii) no effective security agreement, mortgage, deed of trust, financing statement, equivalent security or Lien instrument or continuation statement covering all or any part of the Collateral is or will be on file or of record in any public office, except those relating to Permitted Encumbrances. Borrower promises to defend the right, title and interest of Lender in and to the Collateral against the claims and demands of all Persons whomsoever.

6.3 Collection of Outstanding Accounts. Borrower agrees to use commercially reasonable efforts, and consistent with past practices, to collect on the Accounts.

7. EVENTS OF DEFAULT; RIGHTS AND REMEDIES

7.1 Events of Default. The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an “**Event of Default**” hereunder which shall be deemed to be continuing until waived in writing by Lender in accordance with Section 11.3 or until cured by Borrower:

(a) Borrower shall fail to make any payment in respect of any Obligations when due and payable or declared due and payable;

(b) Borrower shall fail or neglect to perform, keep or observe any of the covenants, promises, agreements, requirements, conditions or other terms or provisions contained in this Agreement or any of the other Loan Documents, after ten days written notice from Lender to Borrower of the same (other than a failure to satisfy the conditions subsequent set forth in Section 2.3 in accordance with the timeframes set forth therein) and with no cure having been effected by Borrower within such ten-day period (such ten-day cure period not being applicable to the conditions subsequent in Section 2.3, above);

(c) an event of default shall occur under any Contractual Obligation of the Borrower (other than this Agreement and the other Loan Documents), and such event of default (i) involves the failure to make any required payment, whether of principal, interest or otherwise, and whether due by scheduled maturity, required prepayment, acceleration, demand or otherwise, in respect of any Indebtedness (other than the Obligations) of such Person in an aggregate amount exceeding the Minimum Actionable Amount, or (ii) causes (or permits any holder of such Indebtedness or a trustee to cause) such Indebtedness, or a portion thereof, in an aggregate amount exceeding the Minimum Actionable Amount, to become due prior to its stated maturity or prior to its regularly scheduled date of payment;

(d) any representation or warranty in this Agreement or any other Loan Document, or in any written statement pursuant hereto or thereto, or in any report, financial statement or certificate made or delivered to Lender by Borrower shall be materially untrue or incorrect as of the date when made or deemed made;

(e) there shall be commenced against Borrower any Litigation seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that remains unstayed or undismissed for 30 consecutive days; or Borrower shall have concealed, removed or permitted to be concealed or removed, any part of its property with intent to hinder, delay or defraud any of its creditors or made or suffered a transfer of any of its property or the incurring of an obligation that may be fraudulent under any bankruptcy, fraudulent transfer or other similar law; or

(f) a case or proceeding shall have been commenced involuntarily against Borrower in a court having competent jurisdiction seeking a decree or order: (i) under the United States Bankruptcy Code or any other applicable federal, national, provincial, state or foreign bankruptcy or other similar law, and seeking either (A) the appointment of a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for such Person or of any substantial part of its properties, or (B) the reorganization or winding up or liquidation of the affairs of any such Person, and such case or proceeding shall remain undismissed or unstayed for 60 consecutive days or such court shall enter a decree or order granting the relief sought in such case or proceeding; or (ii) invalidating or denying any Person's right, power, or competence to enter into or perform any of its obligations under any Loan Document or invalidating or denying the validity or enforceability of this Agreement or any other Loan Document or any action taken hereunder or thereunder; or

(g) Borrower shall (i) commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, conservatorship or relief of debtors, seeking to have an order for relief entered with respect to it or seeking appointment of a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for it or any substantial part of its properties, (ii) make a general assignment for the benefit of creditors, (iii) consent to or take any action in furtherance of, or, indicating its consent to, approval of, or acquiescence in, any of the acts set forth in paragraphs (e) or (f) of this Section or clauses (i) and (ii) of this paragraph, or (iv) shall admit in writing its inability to, or shall be generally unable to, pay its debts as such debts become due; or

(h) a judgment or judgments for the payment of money in excess of the Minimum Actionable Amount in the aggregate shall be rendered against Borrower, unless the same shall be fully covered by insurance and the issuer(s) of the applicable policies shall have acknowledged full coverage in writing within 15 days of judgment, or (ii) vacated, stayed, bonded, paid or discharged within a period of 15 days from the date of such judgment.

7.2 Remedies. (a) If any Default shall have occurred and be continuing, then Lender may, upon written notice to Borrower, take any one or more of the following actions: (i) declare all or any portion of the Obligations to be forthwith due and payable, whereupon such Obligations shall become and be due and payable; or (ii) exercise any rights and remedies provided to Lender under the Loan Documents or at law or equity, including all remedies provided under the Code; provided, however, that upon the occurrence of any Event of Default specified in Sections 7.1 (e), (f) or (g), the Obligations shall become immediately due and payable without presentment, protest, declaration, notice or demand by Lender, all of which are expressly waived by Borrower.

(b) Without limiting the generality of the foregoing, Borrower expressly agrees that upon the occurrence of any Event of Default, Lender may collect, receive, assemble, process, appropriate and realize upon the Collateral, or any part thereof, and may forthwith sell, lease, assign, give an option or options to purchase or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Lender shall have the right upon any such public sale, to the extent permitted by law, to purchase for the benefit of Lender the whole or any part of said Collateral so sold. Such sales may be adjourned, or continued from time to time with or without notice. Lender shall have the right to conduct such sales on Borrower's premises or elsewhere and shall have the right to use any Borrower's premises without rent or other charge for such sales or other action with respect to the Collateral for such time as Lender deems necessary or advisable.

(c) Upon the occurrence and during the continuance of an Event of Default and at Lender's request, Borrower agrees, to assemble the Collateral and make it available to Lender at places that Lender shall reasonably select, whether at its premises or elsewhere. Until Lender is able to effect a sale, lease, or other disposition of the Collateral, Lender shall have the right to complete, assemble, use or operate the Collateral or any part thereof, to the extent that Lender deems appropriate, for the purpose of preserving such Collateral or its value or for any other purpose. Lender shall have no obligation to Borrower to maintain or preserve the rights of Borrower as against third parties with respect to any Collateral while such Collateral is in the possession of Lender. Lender may, if it so elects, seek the appointment of a receiver or keeper to take possession of any Collateral and to enforce any of Lender's remedies with respect thereto without prior notice or hearing. To the maximum extent permitted by applicable law, Borrower waives all claims, damages, and demands against Lender, its Affiliates, agents, and the officers and employees of any of them arising out of the repossession, retention or sale of any Collateral except such as are determined in a final judgment by a court of competent jurisdiction to have arisen solely out of the gross negligence or willful misconduct of such Person. Borrower agrees that ten days' prior notice by Lender to Borrower of the time and place of any public sale or of the time after which a private sale may take place is reasonable notification of such matters. Borrower shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which Lender is entitled.

(d) Lender's rights and remedies under this Agreement shall be cumulative and nonexclusive of any other rights and remedies that Lender may have under any Loan Document or at law or in equity. Recourse to the Collateral shall not be required. All provisions of this Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited, to the extent necessary, so that they do not render this Agreement invalid or unenforceable, in whole or in part.

7.3 Proceeds. The Proceeds of any sale, disposition or other realization upon any Collateral shall be applied by Lender upon receipt to the Obligations in such order as Lender may deem advisable in its sole and complete discretion, and after the indefeasible payment and satisfaction in full in cash of all of the Obligations, and after the payment by Lender of any other amount required by any provision of law, including Sections 9-608(a)(1) and 9-615(a)(3) of the Code (but only after Lender has received what Lender considers reasonable proof of a subordinate party's security interest), the surplus, if any, shall be paid to Borrower or its representatives or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

8. REPRESENTATIONS, WARRANTIES AND COVENANTS REGARDING SHARES

8.1 **Lender Representations, Warranties and Covenants.** The Lender represents and warrants to and agrees with the Borrower as follows:

(a) The Lender is acquiring the Shares as principal for its own account and not with a view to or for distributing or reselling such Shares or any part thereof in violation of the Securities Act of 1933, as amended (the “**Securities Act**”), or any applicable state securities law, has no present intention of distributing any of such Shares in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Shares in violation of the Securities Act or any applicable state securities law.

(b) The Lender is an "accredited investor" as that term is defined in Rule 501(a)(3) of Regulation D promulgated under the Securities Act.

(c) The Lender understands that the Shares are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that CRI is relying in part upon the truth and accuracy of, and the Lender’s compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Lender set forth herein in order to determine the availability of such exemptions and the eligibility of the Lender to acquire the Shares. Each certificate (or book entry) representing any of the Shares shall be endorsed with the following legend:

“NEITHER THE OFFER NOR SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR UNDER ANY STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, ENCUMBERED, OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND UNDER ALL APPLICABLE STATE SECURITIES LAWS, OR RECEIPT BY THE COMPANY AND ITS COUNSEL OF AN OPINION OF COUNSEL REASONABLY ACCEPTABLE IN FORM AND SUBSTANCE TO THE COMPANY AND ITS COUNSEL THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION UNDER THE ACT AND UNDER ALL APPLICABLE STATE SECURITIES LAWS.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE HELD BY A PERSON WHO MAY BE DEEMED TO BE AN AFFILIATE OF THE ISSUER FOR PURPOSES OF RULE 144 PROMULGATED UNDER THE ACT, AND MAY BE SOLD ONLY IN COMPLIANCE WITH RULE 144, PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR PURSUANT TO A VALID EXEMPTION FROM REGISTRATION UNDER THE ACT.”

Upon request, CRI shall remove either or both of the foregoing legends from a certificate or book entry or issue a new certificate free of any such legend if, in connection with such request, CRI shall receive a written opinion of legal counsel, addressed to CRI and reasonably satisfactory in form and substance to CRI, to the effect that (i) such Shares are registered for resale under the Securities Act, (ii) such Shares are sold or transferred pursuant to and in compliance with Rule 144 promulgated under the Securities Act, or (iii) such Shares are eligible for sale under Rule 144 without application of the requirements of paragraph (c) thereof.

(d) The Lender understands that its investment in the Shares involves a high degree of risk. The Lender (i) is able to bear the economic risk of an investment in the Shares including a total loss thereof, (ii) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the proposed investment in the Shares and (iii) is familiar with the financial condition and business of CRI given its current position as a lender and its affiliate's ownership of CRI common stock, and has had an opportunity to ask any questions of and receive answers from the officers of CRI with respect thereto and others matters related to an investment in the Shares. The Lender has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Shares.

(e) The Lender understands that (i) the Shares may not be offered for sale, sold, assigned or transferred unless (A) registered pursuant to the Securities Act or (B) an exemption exists permitting such Shares to be sold, assigned or transferred without such registration; (ii) any sale of the Shares made in reliance on Rule 144 may be made only in accordance with the terms of Rule 144 and further, if Rule 144 is not applicable, any resale of the Shares under circumstances in which the seller (or the Person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the Securities Act) may require compliance with some other exemption under the Securities Act or the rules and regulations of the U.S. Securities and Exchange Commission (the "**Commission**") thereunder.

8.2 Compliance with Securities Laws and Principal Market Rules. Notwithstanding anything in this Agreement to the contrary, but subject to Section 1.14:

(a) The total number of Shares that may be issued under this Agreement shall be limited to 2,347,559 shares of CRI Common Stock (the "**Exchange Cap**"), which equals 19.99% of CRI's outstanding shares of Common Stock as of the date hereof (rounded down to the nearest full share), unless CRI stockholder approval is obtained to issue more than such 19.99% in accordance with the rules of The Nasdaq Stock Market. The Exchange Cap shall be appropriately adjusted for any reorganization, recapitalization, non-cash dividend, stock split, reverse stock split or other similar transaction.

(b) If Lender and its affiliates (the "**Lender Group**") beneficially own (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and Rule 13d-3 promulgated thereunder) the largest ownership position of shares of CRI common stock immediately prior to the proposed issuance of Payment Shares and such shares are less than 19.99% of the then-issued and outstanding shares of CRI common stock, the issuance of such Payment Shares may not cause the Lender Group to beneficially own in excess of 19.99% of the issued and outstanding shares of CRI common stock after such issuance unless CRI stockholder approval is obtained for ownership in excess of 19.99%.

(c) If the Lender Group does not beneficially own the largest ownership position of shares of CRI common stock immediately prior to the proposed issuance of Payment Shares, CRI may not issue Payment Shares to the extent that such issuance would result in Lender Group beneficially owning more than 19.99% of the then issued and outstanding shares of CRI common stock unless (A) such ownership would not be the largest ownership position in CRI, or (B) CRI stockholder approval is obtained for ownership in excess of 19.99%.

(d) CRI may not issue any Payment Shares under the Agreement if such issuance would be considered equity compensation under Nasdaq's rules unless CRI stockholder approval is obtained for such issuance.

8.3 CRI Shareholder Approval. CRI will use its commercially reasonable best efforts to file as soon as practicable but in any event within 30 days of the Closing Date a preliminary proxy statement with the Commission seeking the approval from its shareholders of the issuance of the Shares in compliance with the rules of the Nasdaq Capital Market. CRI will thereafter use its commercially reasonable best efforts to file a definitive proxy statement to cause to be held a CRI shareholder meeting for such approval. The definitive proxy statement shall include a statement that the Board of Directors of CRI has approved the transactions contemplated by this Agreement, including the issuance of the Shares, resolved that the same are in the best interests of the shareholders of CRI and recommends that the shareholders of CRI vote to approve the issuance of the Shares.

8.4 Registration Rights.

(a) CRI shall prepare and file with the Commission as soon as reasonably practicable but in any event within 45 days of the Closing Date a registration statement on Form S-3 registering the resale of the Shares (as amended from time to time, the “**Registration Statement**”), subject to applicable limitations on the amount of Shares that may be registered for resale on the Registration Statement by Lender without being deemed a primary offering by or on behalf of CRI under applicable guidelines of the Commission. CRI will use commercially reasonable best efforts to ensure that the Registration Statement is declared effective within 90 days following the Closing Date for the resale of the Shares. CRI will agree to make such filings as are necessary to keep the Registration Statement effective until the earliest of (i) such time as all Shares held by Lender and registered under the Registration Statement have been sold; or (ii) the date on which Lender may sell such Shares without restriction under Rule 144 promulgated under the Securities Act (including, without limitation, volume restrictions). Upon the Registration Statement becoming declared effective by the Commission, (i) CRI will promptly notify Lender of the effectiveness of the Registration Statement, and (ii) if after the date the Registration Statement is declared effective, Lender seeks to sell the Shares, CRI shall take all actions reasonably necessary to allow, and shall use reasonable best efforts to ensure that CRI’s transfer agent and counsel facilitate the sale or transfer of the subject Shares pursuant to the Registration Statement.

(b) CRI shall:

(i) advise Lender within two (2) business days:

(1) when the Registration Statement or any amendment thereto has been filed with the Commission and when such Registration Statement or any post-effective amendment thereto has become effective;

(2) of any request by the Commission for amendments or supplements to the Registration Statement or the prospectus included therein or for additional information with respect thereto;

(3) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for such purpose;

(4) of the receipt by CRI of any notification with respect to the suspension of the qualification of the Shares included therein for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(5) if it learns that any statement included in the Registration Statement or related prospectus is misleading and omits to state a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading.

Notwithstanding anything to the contrary set forth herein, CRI shall not, when so advising Lender of such events, provide Lender with any material, nonpublic information regarding CRI;

(ii) use its commercially reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of the Registration Statement as soon as reasonably practicable;

(iii) upon the occurrence of any event contemplated above, except for such times as CRI is permitted hereunder to suspend, and has suspended, the use of a prospectus forming part of the Registration Statement, CRI shall use its best efforts to as soon as reasonably practicable prepare a post-effective amendment to such Registration Statement or a supplement to the related prospectus, or file any other required document so that, as thereafter delivered to Lender, such prospectus will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(iv) furnish to the Lender such number of copies of the prospectus, including all amendments and supplements thereto as well as the preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as it may reasonably request in order to facilitate the disposition of the Shares;

(v) use all commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Participating Holders; *provided, however*, that CRI shall not be required in connection therewith or as a condition thereto to qualify to do business in, or to file a general consent to service of process in, or to subject itself to taxation in regard to its ordinary operations by, any such states or jurisdictions;

(vi) use its commercially reasonable best efforts to cause all the Shares to be listed on each securities exchange or market, if any, on which equity securities issued by CRI have been listed; and

(vii) use its commercially reasonable best efforts to take all other steps necessary to effect the registration of the Shares.

(c) Borrower's obligations under this Section 8.4 shall survive the termination of this Agreement.

8.5 Indemnification. Borrower shall, notwithstanding any termination of this Agreement, indemnify, defend and hold harmless Lender (to the extent a seller under any Registration Statement), the officers, directors, agents, partners, members, managers, stockholders, affiliates, employees and investment advisers of each of them, each person who controls Lender (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, partners, members, managers, stockholders, agents, affiliates, employees and investment advisers of each such controlling person (all the foregoing, the "Indemnified Parties"), to the fullest extent permitted by applicable law, from and against any and all losses, claims, demands, suits, actions, judgments, damages, liabilities, costs (including, without limitation, reasonable attorneys' fees) and expenses (collectively, "Losses"), as incurred, that arise out of or are based upon (i) any untrue or alleged untrue statement of a material fact contained in any Registration Statement, any prospectus included in any Registration Statement or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein (in the case of any prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, or (ii) any violation or alleged violation by CRI of the Securities Act, Exchange Act or any state securities law or any rule or regulation thereunder, in connection with the performance of its obligations under this Section, except to the extent, but only to the extent, that such untrue statements, untrue statements, omissions or omissions are based upon information regarding Lender furnished in writing by Lender to CRI expressly for use therein. CRI shall notify Lender promptly of the institution, threat or assertion of any proceeding arising from or in connection with the transactions contemplated by this Section of which CRI is or becomes aware. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of an indemnified party and shall survive the transfer of any Shares by Lender. Borrower's obligations under this Section 8.5 shall survive the termination of this Agreement.

9. SUCCESSORS AND ASSIGNS

Each Loan Document shall be binding on and shall inure to the benefit of Borrower, Lender and their respective successors and assigns, except as otherwise provided herein or therein. Borrower may not assign, transfer, hypothecate, delegate or otherwise convey its rights, benefits, obligations or duties under any Loan Document without the prior express written consent of Lender. Any such purported conveyance by Borrower without the prior express written consent of Lender shall be void. There shall be no third-party beneficiaries (including the Senior Lender) of any of the terms and provisions of any of the Loan Documents, except that Indemnified Parties and Lender's designees who receives any Shares shall be an intended third-party beneficiary of the Company's obligations set forth in Section 8.

10. RELEASE (a) Each Borrower hereby acknowledges and agrees that: (i) no Borrower has any claim or cause of action against the Lender (or any of its Affiliates or its or their officers, directors, employees, managers, members, partner, shareholders, attorneys or consultants) in connection with the Loan Documents (as defined in the Existing Credit Agreement) and (ii) the Lender has heretofore properly performed and satisfied in a timely manner all of its obligations to Borrower under the Existing Credit Agreement and the other Loan Documents (as defined in the Existing Credit Agreement) that are required to have been performed on or prior to the date hereof. Notwithstanding the foregoing, the Lender wishes (and Borrower agrees) to eliminate any possibility that any past conditions, acts, omissions, events or circumstances would impair or otherwise adversely affect any of the Lender's rights, interests, security and/or remedies under the Existing Credit Agreement and the other Loan Documents (as defined in the Existing Credit Agreement) or under this Agreement or any other Loan Document. Accordingly, for and in consideration of the agreements contained in this Agreement and other good and valuable consideration, each Borrower (for itself and each other Borrower and the successors, assigns, heirs and representatives of each of the foregoing) (collectively, the "Releasors") does hereby fully, finally, unconditionally and irrevocably release and forever discharge Lender and each of its Affiliates and its and their managers, members, partners, officers, directors, employees, shareholders attorneys and consultants in their capacities as or for the Lender (collectively, the "Released Parties") from any and all debts, claims, obligations, damages, costs, attorneys' fees, suits, demands, liabilities, actions, proceedings and causes of action, in each case, whether known or unknown, contingent or fixed, direct or indirect, and of whatever nature or description, and whether in law or in equity, under contract, tort, statute or otherwise, which any Releasor has heretofore had or now or hereafter can, shall or may have against any Released Party by reason of any act, omission or thing whatsoever done or omitted to be done directly arising out of, connected with or related to the Existing Credit Agreement or any other Loan Document (as defined in the Existing Credit Agreement), or any act, event or transaction related or attendant thereto, or the agreements of the Lender contained therein, or the possession, use, operation or control of any of the assets of any Borrower, or the making of any Loans or other Advances, or the management of such Loans or Advances or the Collateral, in each case, solely to the extent arising from any act, omission or thing whatsoever done or omitted to be done on or prior to the Closing Date.

11. GENERAL PROVISIONS

11.1 **Complete Agreement; Modification of Agreement.** This Agreement and the other Loan Documents constitute the complete agreement between the parties with respect to the subject matter hereof and thereof, supersede all prior agreements, commitments, understandings or inducements (oral or written, expressed or implied). No Loan Document may be modified, altered or amended except by a written agreement signed by Lender and Borrower.

11.2 **Expenses.** Borrower agrees to pay its own costs and expenses (including the fees and expenses of all counsel, advisors, consultants and auditors retained in connection therewith), incurred in connection with the preparation, negotiation, execution and delivery of, and, other than as specifically set forth herein, the performance of obligations under, the Loan Documents. Borrower agrees to also pay Lender's costs and expenses (including the fees and expenses of all counsel, advisors, consultants and auditors retained in connection therewith), incurred in connection with the preparation, negotiation, execution and delivery of, and, other than as specifically set forth herein, the performance of obligations under, the Loan Documents and the enforcement of the rights and remedies hereunder.

11.3 **No Waiver.** Neither Lender's failure, at any time, to require strict performance by Borrower of any provision of any Loan Document, nor Lender's failure to exercise, nor any delay in exercising, any right, power or privilege hereunder, shall operate as a waiver thereof or waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or future exercise thereof or the exercise of any other right, power or privilege. Any suspension or waiver of a Default or other provision under the Loan Documents shall not suspend, waive or affect any other Default or other provision under any Loan Document, and shall not be construed as a bar to any right or remedy that Lender would otherwise have had on any future occasion. None of the undertakings, indemnities, agreements, warranties, covenants and representations of Borrower to Lender contained in any Loan Document and no Default by Borrower under any Loan Document shall be deemed to have been suspended or waived by Lender, unless such waiver or suspension is by an instrument in writing signed by an officer or other authorized employee of Lender and directed to Borrower specifying such suspension or waiver (and then such waiver shall be effective only to the extent therein expressly set forth), and Lender shall not, by any act (other than execution of a formal written waiver), delay, omission or otherwise, be deemed to have waived any of its rights or remedies hereunder.

11.4 Severability. Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of any Loan Document shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of such Loan Document. Except as otherwise expressly provided for in the Loan Documents, no termination or cancellation (regardless of cause or procedure) of any financing arrangement under the Loan Documents shall in any way affect or impair the Obligations, duties, covenants, representations and warranties, indemnities, and liabilities of Borrower or the rights of Lender relating to any unpaid Obligation, (due or not due, liquidated, contingent or unliquidated), or any transaction or event occurring prior to such termination, or any transaction or event, the performance of which is not required until after the Termination Date, all of which shall not terminate or expire, but rather shall survive such termination or cancellation and shall continue in full force and effect until the Termination Date; provided, however, that all indemnity obligations of Borrower under the Loan Documents shall survive the Termination Date.

11.5 Notices. Except as otherwise provided herein, whenever any notice, demand, request or other communication shall or may be given to or served upon any party by any other party, or whenever any party desires to give or serve upon any other party any communication with respect to this Agreement, each such communication shall be in writing and shall be deemed to have been validly served, given or delivered (a) three days after deposit in the United States Mail, registered or certified mail, return receipt requested, with proper postage prepaid, (b) upon confirmed receipt, when sent by email transmission, (c) one Business Day after deposit with a reputable overnight courier with all charges prepaid or (d) when hand-delivered, all of which shall be addressed to the party to be notified and sent to the address or facsimile number indicated on the signature pages hereto or to such other address (or facsimile number) as may be substituted by notice given as herein provided.

11.6 Counterparts. Any Loan Document may be authenticated in any number of separate counterparts by any one or more of the parties thereto, and all of said counterparts taken together shall constitute one and the same instrument. Valid and binding signatures to any Loan Document may be delivered in original ink, by facsimile or by email or other means of electronic transmission.

11.7 Governing Law. The Loan Documents and the obligations arising under the Loan Documents shall be governed by, and construed and enforced in accordance with, the laws of the State of New York applicable to contracts made and performed in such state, without regard to the principles thereof regarding conflicts of laws.

11.8 Submission To Jurisdiction; Waiver Of Jury Trial. (A) BORROWER HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN NEW YORK CITY, NEW YORK, SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN BORROWER AND LENDER PERTAINING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS; PROVIDED, HOWEVER, THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO COLLECT THE OBLIGATIONS, TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF LENDER. BORROWER EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS.

(B) THE PARTIES HERETO WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE BETWEEN LENDER AND BORROWER ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THE LOAN DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

11.9 **Reinstatement.** This Agreement shall continue to be effective, or be reinstated, as the case may be, if at any time payment of all or any part of the Obligations is rescinded or must otherwise be returned or restored by Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Borrower, or otherwise, all as though such payments had not been made.

11.10 **Joint and Several.** Each Borrower agrees that it is jointly and severally liable for, and absolutely and unconditionally guarantees to Lender the prompt payment and performance of, all Obligations under this Agreement and all agreements under the Loan Documents.

11.11 **Amendment And Restatement; No Novation.** This Agreement constitutes an amendment and restatement of the Existing Credit Agreement and the Existing Notes, as amended, effective from and after the date hereof. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby shall constitute a novation of any indebtedness or other obligations owing to Lender under the Existing Credit Agreement and Existing. As of the Closing Date, the credit facilities described in the Existing Credit Agreement, as amended, shall be amended, supplemented, modified and restated in their entirety by the facilities described herein, and all loans and other obligations of the Borrowers outstanding as of such date under the Existing Credit Agreement and Existing Notes, as amended, shall be deemed to be loans and obligations outstanding under the corresponding facilities described herein, without any further action by Lender.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Amended and Restated Loan and Security Agreement has been duly executed as of the date first written above.

BORROWER: CREATIVE REALITIES, INC. CREATIVE REALITIES, LLC CREATIVE REALITIES CANADA, INC. CONEXUS WORLD GLOBAL, LLC ALLURE GLOBAL SOLUTIONS, INC. <u>/s/ Richard Mills</u> By: Richard Mills Title: Chief Executive Officer	LENDER: SLIPSTREAM COMMUNICATIONS, LLC <u>/s/ Brian Friedman</u> By: Brian Friedman Title: General Counsel
Address for Notice (for all Borrowers): Creative Realities, Inc. Attention: Chief Financial Officer 13100 Magisterial Dr, Ste. 100 Louisville, KY 40223	Address for Notice: Slipstream Communications, LLC Attention Mr. Brian Friedman 750 E. Main St., Suite 600 Stamford, CT 06902

SCHEDULE A – DEFINITIONS

Capitalized terms used in this Agreement and the other Loan Documents shall have (unless otherwise provided elsewhere in this Agreement or in the other Loan Documents) the following respective meanings:

“**Advance**” means any advance or deemed advance of Loan proceeds under this Agreement, as outlined in Section 1 or otherwise.

“**Affiliate**” means, with respect to any Person: (a) each other Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary, 10% or more of the voting capital stock having ordinary voting power for the election of directors of such Person; (b) each other Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person; or (c) each of such Person’s officers, directors, joint venturers and partners. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“**Agreement**” means this Agreement, including all appendices, exhibits or schedules attached or otherwise identified thereto, restatements and modifications and supplements thereto, and any appendices, exhibits or schedules to any of the foregoing, each as effect at the time such reference becomes operative.

“**Bankruptcy Event**” means the occurrence of any event referred to in either Section 7.1(f) or (g).

“**Books and Records**” means all books, records, board minutes, contracts, licenses, insurance policies, environmental audits, business plans, files, computer files, computer discs and other data and software storage and media devices, accounting books and records, financial statements (actual and pro forma), filings with Governmental Authorities and any and all records and instruments relating to the Collateral or Borrower’s business.

“**Borrower**” means each of, and collectively all of, Creative Realities, Inc., Creative Realities, LLC, Creative Realities Canada, Inc., Conexus World Global, LLC and Allure Global Solutions, Inc.

“**Business Day**” means any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

“**Closing Date**” means the time on the Business Day on which the conditions precedent set forth in Section 2.1 and 2.2 have been satisfied or specifically waived in writing by Lender, and the Consolidation Term Loan and the Special Convertible Term Loan are deemed made pursuant hereto.

“**Code**” means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York; provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, the Lender’s Lien on any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, then the term “Code” shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions of this Agreement relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions; provided further, that to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern.

“**Collateral**” has the meaning assigned to it in Section 6.1.

“**Contractual Obligation**” means as to any Person, any provision of any security issued by such Person or of any written agreement, instrument, or other undertaking to which such Person is a party or by which it or any of its property is bound.

“**Conversion Date**” means March 31, 2022.

“**Default**” means any Event of Default or any event that, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

“**Default Rate**” has the meaning assigned to it in Section 1.4.

“**Event of Default**” has the meaning assigned to it in Section 7.1.

“**Financial Statements**” means the consolidated and consolidating income statement, balance sheet and statement of cash flows of Creative Realities, Inc. prepared in accordance with GAAP.

“**GAAP**” means generally accepted accounting principles in the United States of America as in effect from time to time, consistently applied.

“**Governmental Authority**” means any nation or government, any state or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“**Indebtedness**” of any Person means: (a) all indebtedness of such Person for borrowed money or for the deferred or unpaid purchase price of property or services (including reimbursement and all other obligations with respect to surety bonds, letters of credit and bankers’ acceptances, whether or not matured, but not including obligations to trade creditors incurred in the ordinary course of business and not more than 45 days past due); (b) all obligations evidenced by notes, bonds, debentures or similar instruments; (c) all indebtedness created or arising under any conditional sale or other title-retention agreements with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (d) all capital lease obligations; (e) all guarantees of Indebtedness of other Persons; (f) all Indebtedness referred to in clauses (a), (b), (c), (d) or (e) above that is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; (g) the Obligations; and (h) all liabilities under Title IV of the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time, and any regulations promulgated thereunder.

“**Intellectual Property**” means any and all Licenses, patents, copyrights, trademarks, trade secrets and customer lists.

“**IRC**” and “**IRS**” mean respectively, the Internal Revenue Code of 1986 and the Internal Revenue Service, and any successors thereto.

“**Lender**” means Slipstream Communications, LLC. and in the event of the assignment by Lender of any of its rights or obligations, shall mean the assignee.

“**License**” means any written agreement now owned or hereafter acquired by any Person granting any right with respect to (i) any copyright or copyright registration, (ii) any invention on which a patent is in existence, (iii) the use of any trademark or trademark registration, or (iv) other license of rights or interests now held or hereafter acquired by any Person.

“**Lien**” means any mortgage, security deed or deed of trust, pledge, hypothecation, assignment, deposit arrangement, proxy, voting agreement, lien, charge, claim, security interest, security title, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the Code or comparable law of any jurisdiction).

“**Litigation**” means any claim, lawsuit, litigation, investigation or proceeding of or before any arbitrator or Governmental Authority.

“**Loan Documents**” means this Agreement, the Warrants and all security agreements and other documents, instruments, certificates, and notices at any time delivered by any Person (other than Lender) in connection with any of the foregoing.

“**Loan Rate**” means (i) with respect to the Line of Credit Loan and the Special Convertible Term Loan, a fixed rate equal to ten percent (10.0%) *per annum*; and (ii) with respect to the Consolidation Term Loan, a fixed rate equal to eight percent (8.0%) *per annum*.

“**Material Adverse Effect**” means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to or have a material adverse effect on (a) the business, assets, operations, or financial or other condition of Borrower, (b) Borrower’s ability to pay or perform the Obligations under the Loan Documents in accordance with the terms thereof, (c) the Collateral or Lender’s Liens on the Collateral or the priority of any such Lien, or (d) Lender’s rights and remedies under this Agreement and the other Loan Documents.

“**Maturity Date**” means March 31, 2023.

“**Minimum Actionable Amount**” means \$100,000.

“**Notes**” means, collectively, the Line of Credit Note, the Consolidation Term Note and the Special Convertible Term Note.

“**Obligations**” means all loans, advances, debts, expense reimbursement, fees, liabilities, and obligations for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or amounts are liquidated or determinable) owing by Borrower to Lender, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, whether arising under any of the Loan Documents or under any other agreement between Borrower and Lender, and all covenants and duties regarding such amounts. This term includes all principal, interest (including interest accruing at the then-applicable rate provided in this Agreement after the maturity of the Loans and interest accruing at the then-applicable Loan Rate after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), fees, Charges, expenses, attorneys’ fees and any other sum chargeable to Borrower under any of the Loan Documents, and all principal and interest due in respect of the Loans.

“Permitted Encumbrances” means the following encumbrances: (a) Liens for Taxes or assessments or other charges or levies, either not yet due or payable; (b) pledges or deposits securing obligations under worker’s compensation, unemployment insurance, social security or public liability laws or similar legislation; (c) pledges or deposits securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which Borrower is a party as lessee made in the ordinary course of business in an aggregate amount outstanding at anytime not in excess of \$75,000; (d) deposits securing public or statutory obligations of Borrower; (e) inchoate and unperfected workers’, mechanics’, or similar liens arising in the ordinary course of business so long as such Liens attach only to Equipment, fixtures or real estate; (f) carriers’, warehousemans’, suppliers’ or other similar possessory liens arising in the ordinary course of business and securing indebtedness not yet due and payable in an outstanding aggregate amount not in excess of \$75,000 at any time so long as such Liens attach only to Inventory; (g) deposits of money securing, or in lieu of, surety, appeal or customs bonds in proceedings to which Borrower is a party; (h) zoning restrictions, easements, licenses, or other restrictions on the use of real property or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value, or marketability of such real estate; (i) Purchase Money Liens securing Purchase Money Indebtedness (or rent) to the extent permitted under Section 5(b); (j) all of those Liens in existence on the Closing Date and disclosed on Disclosure Schedule 5(d); and (k) Liens in favor of Lender securing the Obligations.

“Person” means any individual, sole proprietorship, partnership, limited liability partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, entity or government (whether domestic or foreign, federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof), and shall include such Person’s successors and assigns.

“PPSA” means the Personal Property Security Act of the province of Ontario.

“Purchase Money Indebtedness” means (a) any Indebtedness incurred for the payment of all or any part of the purchase price of any fixed asset, (b) any Indebtedness incurred for the sole purpose of financing or refinancing all or any part of the purchase price of any fixed asset, and (c) any renewals, extensions or refinancings thereof.

“Purchase Money Lien” means any Lien upon any fixed assets which secures the Purchase Money Indebtedness related thereto, but only if such Lien shall at all times be confined solely to the asset the purchase price of which was financed or refinanced through the incurrence of the Purchase Money Indebtedness secured by such Lien and only if such Lien secures only such Purchase Money Indebtedness.

“Real Property” has the meaning assigned to it in Section 3.6.

“Requirement of Law” means as to any Person, the Articles of Incorporation and Bylaws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Restricted Payment” means: (a) the declaration or payment of any cash dividend or the incurrence of any liability to make any other payment or distribution of cash or other property or assets on or in respect of Borrower’s capital stock; (b) any payment or distribution made in respect of any subordinated Indebtedness of Borrower in violation of any subordination or other agreement made in favor of Lender; (c) any payment on account of the purchase, redemption, defeasance or other retirement of Borrower’s capital stock or any other payment or distribution made in respect of any thereof, either directly or indirectly; provided, however, that no payment to Lender shall constitute a Restricted Payment.

“**Taxes**” means taxes, levies, imposts, deductions, Charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on or measured by the net income of Lender.

“**Termination Date**” means the date on which all Obligations under this Agreement are indefeasibly paid in full, in cash, and Borrower shall have no further right to borrow any moneys or obtain other credit extensions or financial accommodations under this Agreement.

“**Warrants**” means the Warrants issued by CRI to Lender set forth on *Schedule B* hereto, including but not limited to Warrants issued by CRI to Lender in connection with the Existing Agreement and any amendment to the Existing Agreement, including the Warrant dated on or about August 17, 2016, the Warrant dated November 13, 2017, the Warrant dated January 6, 2018 and the Warrant dated April 27, 2018, and any replacements or substitutions thereof.

Any accounting term used in this Agreement or the other Loan Documents shall have, unless otherwise specifically provided therein, the meaning customarily given such term in accordance with GAAP, and all financial computations thereunder shall be computed, unless otherwise specifically provided therein, in accordance with GAAP consistently applied. All capitalized terms used in this Agreement or other Loan Documents but undefined shall, unless the context indicates otherwise, have the meanings provided for by the Code. The words “herein,” “hereof” and “hereunder” or other words of similar import refer to this Agreement as a whole, including the exhibits and schedules thereto, as the same may from time to time be amended, modified or supplemented, and not to any particular section, subsection or clause contained in this Agreement.

For purposes of this Agreement and the other Loan Documents, the following additional rules of construction shall apply, unless specifically indicated to the contrary: (a) wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural; (b) the term “or” is not exclusive; (c) the term “including” (or any form thereof) shall not be limiting or exclusive; (d) all references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations; and (e) all references to any instruments or agreements, including references to any of the Loan Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Creative Realities, Inc. on Form S-3 (Nos. 333-239108 and 333-238275), Form S-1 (Nos. 333-225876 and 333-209847) and Form S-8 (Nos. 333-189318, 333-181999, 333-174861, 333-167454, 333-159927, 333-147458 and 333-145795) of our report dated March 12, 2020, on our audit of the consolidated financial statements as of December 31, 2019 and for the year then ended, which report is included in this Annual Report on Form 10-K.

/s/ EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
March 9, 2021

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-239108 and 333-238275 on Form S-3, Nos. 333-225876 and 333-209847 on Form S-1, and Nos. 333-189318, 333-181999, 333-174861, 333-167454, 333-159927, 333-147458 and 333-145795 on Form S-8 of our report dated March 9, 2021, relating to the consolidated financial statements of Creative Realities, Inc. appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ Deloitte and Touche LLP

Louisville, Kentucky
March 9, 2021

**CHIEF EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Richard Mills, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2020, of Creative Realities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 9, 2021

By: /s/ Richard Mills
Richard Mills
Chief Executive Officer

**CHIEF FINANCIAL OFFICER CERTIFICATION
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Will Logan, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2020, of Creative Realities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 9, 2021

By: /s/ Will Logan
Will Logan
Chief Financial Officer

**CHIEF EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Annual Report of Creative Realities, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: March 9, 2021

By: /s/ Richard Mills
Richard Mills
Chief Executive Officer

**CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual Report of Creative Realities, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Will Logan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: March 9, 2021

By: /s/ Will Logan
Will Logan
Chief Financial Officer

FOR IMMEDIATE RELEASE**Creative Realities Reports Fourth Quarter and Full Year 2020 Results**

LOUISVILLE, KY – March 9, 2021 – Creative Realities, Inc. (“Creative Realities,” “CRI,” or the “Company”) (NASDAQ: CREX, CREXW), a leading provider of digital marketing solutions, announced its financial results for the year ended December 31, 2020, including the quarter ended as of the same date.

Rick Mills, Chief Executive Officer, commented “CRI’s fourth quarter results generated positive EBITDA, build upon the successful stabilization of our business during the third quarter of 2020, and evidence the continued momentum towards a return to sustained growth as we and our customers begin to exit the ongoing COVID-19 pandemic. We believe that our implementation of cost control measures and expansion of our business into the Safe Space Solutions marketplace set CRI on a path for return to expansion in 2021 and beyond.”

“During the fourth quarter a resurgence in COVID-19 cases again put pressure on our customers as anticipated re-openings were again delayed; however, as we move through the first quarter of 2021, we experienced a reawakening of many current and potential customers of our digital signage solutions, with a renewed focus on integrating digital technologies into the patron experience as the U.S. prepares for reopening and the easing of government restrictions. We expect that the second half of 2021 will present significant opportunities for CRI as a result of our ability to strengthen the Company’s market perception and competitive position during the COVID-19 pandemic, and significantly improve our balance sheet through activities executed in the first quarter of 2021.”

Mr. Mills continued, “We believe CRI’s suite of Safe Space Solutions product offerings are a clear market leader, and we see continued opportunities for growth for this product line in 2021. The expansion of capabilities we worked to develop alongside our partner InReality have expanded the use cases for these products beyond temperature taking and have generated demand that we believe can be sustained beyond the COVID-19 pandemic.”

2020 Financial Overview*Revenue, gross profit, and gross margin:*

- Revenues were \$17.5 million for the year ended December 31, 2020, a decrease of \$14.1 million, or 45%, as compared to the same period in 2019.
 - Hardware revenues were \$9.0 million for the year ended December 31, 2020, an increase of \$0.8 million, or 9.3%, as compared to the prior year, driven by the introduction of the Thermal Mirror and other Safe Space Solutions products which generated approximately \$3.1 million in hardware sales during the year. Gross margin on hardware revenue was 30.5% during 2020 as compared to 24.1% during the same period in 2019 due to the shift in mix of hardware revenues from displays to the Thermal Mirror and other Safe Space Solutions products which typically generate higher gross profit on a per unit basis.
 - Services and other revenues were \$8.5 million for the year ended December 31, 2020, a decrease of \$14.9 million, or 63.8%, as compared to the same period in 2019, driven by reductions in (1) installation services of \$4.9 million following a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures as a direct result of the COVID-19 pandemic, and (2) software development services of \$8.8 million which included nonrecurrence of approximately \$7.9 million of 2019 revenue related to software development and licensing arrangements. Reductions in year over year core digital signage business were partially offset by \$0.4 million of services revenue generated from our Safe Space Solutions products during the year ended December 31, 2020 following launch of the suite of products at the end of April 2020.
 - Managed services revenue, which includes both software-as-a-service (“SaaS”) and help desk technical subscription services for our traditional digital signage and new Thermal Mirror and Safe Space Solutions product offerings, were \$5.4 million for the year ended December 31, 2020, a reduction of \$1.2 million, or 18.1%, primarily related to contracts with customers which were partially or permanently closed during the year as a result of the COVID-19 pandemic.
 - Gross profit was \$8.1 million for the year ended December 31, 2020, a decrease of \$5.6 million, or 41%, compared to the same period in 2019. Consolidated gross margin increased to 46.5% for the year ended December 31, 2020 from 43.5% in the prior year, driven primarily by higher gross profit generated on sales of the Thermal Mirror and Safe Space products.
-

Operating expenses:

- For the year ended December 31, 2020 as compared to the same period in the prior year:
- Sales and marketing expenses decreased by \$0.7 million, or 28.5% while research and development expenses decreased by \$0.3 million, or 23.4%, each driven by a reduction in employee-related expenses as a result of a combination of headcount reductions, salary reductions implemented for retained personnel, and a reduction in travel-related expenses in the current year including the elimination of participation in industry trade shows.
- General and administrative expenses increased by \$0.2 million in 2020, or 2.2% compared to 2019, driven by:
 - An increase of \$0.3 million, or 80%, in non-cash charges related to the amortization of share-based compensation for employee awards; and
 - An increase of \$0.6 million, or 289%, in bad debt expenses related to a customer bankruptcy during the year. The Company has entered a settlement agreement with the customer to recover a significant portion of those funds during 2021.

Exclusive of the incremental year-over-year increase in non-cash charges, general and administrative expenses decreased by \$0.7 million, or 8%, for the year ended December 31, 2020 as compared to the same period in 2019.

Operating loss, net loss, and EBITDA:

- Operating loss was \$16.1 million for the year ended December 31, 2020 as compared to an operating loss of \$0.1 million during the same period in 2019. The operating loss included a non-cash goodwill impairment charge of \$10.7 million recorded March 31, 2020. Excluding the impact of the impact of the goodwill impairment charge, operating loss was \$5.4 million for the year ended December 31, 2020, representing an increase in operating loss of \$5.3 million despite a reduction in year-over-year revenue of \$14.1 million during the year.
- Net loss was \$16.8 million for the year ended December 31, 2020 as compared to net income of \$1.0 million for the same period in 2019.
- EBITDA loss was \$13.9 million for the year ended December 31, 2020 as compared to EBITDA of \$3.2 million the same period in 2019. Adjusted EBITDA loss was \$3.2 million for the year ended December 31, 2020, compared to \$1.8 million for the same period in 2019. See below for a description of these non-GAAP financial measures and reconciliation to our net loss.
 - EBITDA for the second half of 2020 was \$0.5 million, highlighting the Company's continued efforts to control operating expenditures and restructure commitments.

Subsequent events:

- Payroll Protection Program Loan ("PPP Loan"): On January 11, 2021, we received notice that the full principal amount of the PPP Loan and the accrued interest, representing ~\$1.6 million, had been forgiven. Accounting for the forgiveness will be recognized in the Company's first quarter of 2021.
- Debt Refinancing: On March 7, 2021, the Company refinanced current debt facilities, which:
 - extends maturity dates on all outstanding secured credit facilities to March 31, 2023;
 - provides an additional \$1.0 million of availability under a line of credit;
 - removed the three times liquidation preference of the Company's special convertible term loan; and
 - extinguished the outstanding obligations owed with respect to a \$0.2 million existing disbursed escrow loan in exchange for shares of the Company's common stock valued at \$2.718 per share (the trailing 10-day VWAP as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement).

- **Registered Direct Offering:** On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company's common stock (the "Shares"), in a registered direct offering (the "Offering") at a purchase price of \$2.50 per Share, for gross proceeds of \$2.0 million. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1.8 million, which the Company intends to use for general corporate purposes. The closing of the Offering occurred on February 22, 2021.

Mr. Mills concluded, "We are proud of the work we have done to prepare the Company for long-term success and are excited about recent customer developments, both those we have previously announced and those we anticipate will come to fruition throughout 2021. We continue to believe that our end-to-end offering has positioned us well within the industry to compete for new and growing opportunities with partners, particularly potential enterprise customers in a variety of key verticals."

Conference Call Details

The Company will host a webinar to review the results and provide additional commentary about the Company's recent performance, which is scheduled for Wednesday, March 9, 2021 at 9:00 am Eastern Time.

Prior to the call, participants should register at <https://bit.ly/criearnings2020Q4>. Once registered, participants can use the weblink provided in the registration email to listen to and view prepared materials via live webcast. An archived edition of the conference call will also be posted on our website at www.cri.com later that same day and will remain available to interested parties via the same link for one year.

About Creative Realities, Inc.

Creative Realities helps clients use the latest omnichannel technologies to inspire better customer experiences. CRI designs, develops and deploys consumer experiences for high-end enterprise level networks, and is actively providing recurring SaaS and support services across more than fifteen diverse vertical markets, including but not limited to Automotive, Advertising Networks, Apparel & Accessories, Convenience Stores, Foodservice/QSR, Gaming, Theater, and Stadium Venues. The Company operates primarily throughout North America and has active contracts in more than 10 countries.

Use of Non-GAAP Measures

Creative Realities, Inc. prepares its consolidated financial statements in accordance with United States generally accepted accounting principles ("GAAP"). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding "EBITDA" and "Adjusted EBITDA." CRI defines "EBITDA" as earnings before interest, income taxes, depreciation and amortization of intangibles. CRI defines "Adjusted EBITDA" as EBITDA excluding stock-based compensation, fair value adjustments and both cash and non-cash non-recurring gains and charges. EBITDA and Adjusted EBITDA are not measures of performance defined in accordance with GAAP. However, EBITDA and Adjusted EBITDA are used internally in planning and evaluating the Company's operating performance. Accordingly, management believes that disclosure of these metrics offers investors, bankers and other stakeholders an additional view of the Company's operations that, when coupled with the GAAP results, provides a more complete understanding of the Company's financial results.

EBITDA and Adjusted EBITDA should not be considered as an alternative to net income/(loss) or to net cash used in operating activities as measures of operating results or liquidity. Our calculation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures used by other companies, and the measures exclude financial information that some may consider important in evaluating the Company's performance. A reconciliation of GAAP net income/(loss) to EBITDA and Adjusted EBITDA is included in the accompanying financial schedules.

For further information, please refer to Creative Realities, Inc.'s filings available online at www.sec.gov, including its Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about March 9, 2021.

Cautionary Note on Forward-Looking Statements

This press release contains certain statements that are deemed "forward-looking statements" under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and includes, among other things, discussions of our business strategies, future operations and capital resources. Words such as "may," "likely," "anticipate," "expect," "intend," "plans," "seeks," "will," "should," "future," "propose," "believe" and variations of these words or similar expressions (or the negative versions of such words or expressions) indicate forward-looking statements. These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside the Company, that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements. Some of these risks are discussed in the "Risk Factors" section contained in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2019, and Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020, and the Company's subsequent filings with the U.S. Securities and Exchange Commission. Important factors, among others, that may affect actual results or outcomes include: our strategy for customer retention, growth, product development, market position, financial results and reserves our ability to meet Nasdaq's continued listing standards; our ability to execute on our business plan; our ability to retain key personnel; potential litigation; and general economic and market conditions impacting demand for our products and services, including those as a result of the COVID-19 pandemic.

Except where required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Contact

Creative Realities, Inc.

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<https://investors.cri.com/>

RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA
(in thousands, unaudited)

Creative Realities, Inc. prepares its consolidated financial statements in accordance with United States generally accepted accounting principles (“GAAP”). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding “EBITDA” and “Adjusted EBITDA.” CRI defines “EBITDA” as earnings before interest, income taxes, depreciation and amortization of intangibles. CRI defines “Adjusted EBITDA” as EBITDA excluding stock-based compensation, fair value adjustments and both cash and non-cash non-recurring gains and charges.

EBITDA and Adjusted EBITDA are non-GAAP financial measures and should not be considered as a substitute for net income (loss), operating income (loss) or any other performance measure derived in accordance with United States generally accepted accounting principles (“GAAP”) or as an alternative to net cash provided by operating activities as a measure of CRI’s profitability or liquidity. CRI’s management believes EBITDA and Adjusted EBITDA are useful financial metrics because they allow external users of CRI’s financial statements, such as industry analysts, investors, lenders and rating agencies, to more effectively evaluate CRI’s operating performance, compare the results of its operations from period to period and against CRI’s peers without regard to CRI’s financing methods, hedging positions or capital structure and because it highlights trends in CRI’s business that may not otherwise be apparent when relying solely on GAAP measures. CRI also presents EBITDA and Adjusted EBITDA because it believes EBITDA and Adjusted EBITDA are important supplemental measures of its performance that are frequently used by others in evaluating companies in its industry. Because EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income (loss) and may vary among companies, the EBITDA and Adjusted EBITDA CRI presents may not be comparable to similarly titled measures of other companies.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA from net loss, CRI’s most directly comparable financial measure calculated and presented in accordance with GAAP.

Quarters ended	Year Ended 2020	Quarters Ended			
		December 31, 2020	September 30, 2020	June 30 2020	March 31, 2020
GAAP net loss	\$ (16,844)	\$ (617)	\$ (585)	\$ (2,459)	\$ (13,183)
Interest expense:					
Amortization of debt discount	339	85	85	84	85
Other interest, net	683	186	179	176	142
Depreciation/amortization:					
Amortization of intangible assets	617	139	161	158	159
Amortization of finance lease assets	20	3	5	5	7
Amortization of share-based awards	617	250	248	100	19
Depreciation of property, equipment & software	837	209	212	216	200
Income tax expense/(benefit)	(158)	(6)	(1)	4	(155)
EBITDA	<u>\$ (13,889)</u>	<u>\$ 249</u>	<u>\$ 304</u>	<u>\$ (1,716)</u>	<u>\$ (12,726)</u>
Adjustments					
Change in fair value of Special Loan	93	(609)	-	551	151
Gain on settlement of obligations	(209)	(54)	(114)	(1)	(40)
Loss on disposal of assets	13	-	13	-	-
Loss on lease termination	18	18	-	-	-
Loss on goodwill impairment	10,646	-	-	-	10,646
Stock-based compensation – Director grants	102	27	25	19	31
Adjusted EBITDA	<u>\$ (3,226)</u>	<u>\$ (369)</u>	<u>\$ 228</u>	<u>\$ (1,147)</u>	<u>\$ (1,938)</u>

Quarters ended	Year Ended 2019	Quarters ended			
		December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
GAAP net income/(loss)	\$ 1,038	\$ 563	\$ 242	\$ 417	\$ (184)
Interest expense:					
Amortization of debt discount	524	105	105	158	156
Other interest, net	306	109	94	55	48
Depreciation/amortization	1,250	378	278	308	286
Income tax expense/(benefit)	93	128	51	(107)	21
EBITDA	<u>\$ 3,211</u>	<u>\$ 1,283</u>	<u>\$ 770</u>	<u>\$ 831</u>	<u>\$ 327</u>
Adjustments					
Change in warrant liability	(21)	-	-	(22)	1
Gain on settlement of obligations	(2,051)	(1,632)	(406)	(6)	(7)
Gain on earnout liability	(250)	(250)	-	-	-
Stock-based compensation	447	52	62	291	42
Adjusted EBITDA	<u>\$ 1,336</u>	<u>\$ (547)</u>	<u>\$ 426</u>	<u>\$ 1,094</u>	<u>\$ 363</u>