

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1 to
FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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 Number)

13100 Magisterial Drive, Suite 100
Louisville, KY 40223
Telephone: (502) 791-8800
(Address, including Zip Code, and Telephone Number, including
Area Code, of Registrant's Principal Executive Offices)

Mr. Richard Mills
Chief Executive Officer
13100 Magisterial Drive, Suite 100
Louisville, KY 40223
Telephone: (502) 791-8800
(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent for Service)

Copy to:

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of the registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 (check one):

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Emerging growth company

Accelerated filer

Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common stock, \$0.01 par value per share			\$ 8,000,000	\$ 996.00

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) of the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is prohibited.

SUBJECT TO COMPLETION, DATED AUGUST 3, 2018

PRELIMINARY PROSPECTUS



CREATIVE REALITIES, INC.

[●] Shares of Common Stock

We are offering [●] shares of our common stock at a public offering price of \$[●] per share. The underwriters have the option to purchase up to [●] additional shares from us at the price to the public less the underwriting discounts and commissions.

Our common stock is currently traded on the OTCQX Marketplace under the symbol "CREX." On August 2, 2018, the closing price of our common stock was \$0.26 per share. We have reserved the symbol "[●]" for purposes of listing our common stock on The NASDAQ Capital Market and have applied to list our common stock on that exchange. If the application is approved, trading of our common stock on The NASDAQ Capital Market is expected to begin within 5 days after the date on which we sell and issue the common stock under this prospectus. We will not consummate and close this offering without a listing approval letter from The NASDAQ Capital Market. In this prospectus, we assume that the price per share in this offering will be in the range of \$[●] to \$[●], and we have used the midpoint of such range (\$[●]) for the assumptions set forth herein.

You should read this prospectus carefully before you invest. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

Investing in our common stock involves a high degree of risk. Before making any investment in these securities, you should read and carefully consider the risks described in this prospectus under "Risk Factors" beginning on page 5 of this prospectus. We are a "smaller reporting company" under applicable law and will be subject to reduced public company reporting requirements.

[●] is acting as the representative of the underwriters for the offering. There is no arrangement for funds to be received in any escrow, trust or similar arrangement. Delivery of the shares of our common stock will be made on or about [●], 2018.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2018

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ABOUT THIS PROSPECTUS

Unless otherwise stated or the context otherwise requires, the terms “we,” “us,” “our,” “Creative Realities” and the “Company” refer to Creative Realities, Inc. and its subsidiaries.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are not making an offer to sell securities in any jurisdiction in which the offer or sale is not permitted. You should assume that the information in this prospectus is accurate only as of the date on the front cover of this prospectus regardless of the time of delivery of this prospectus or any exercise of the rights. Our business, financial condition, results of operations, and prospects may have changed since that date.

The industry, market and data used throughout this prospectus have been obtained from our own research, surveys or studies conducted by third parties and industry or general publications. Industry publications and surveys generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. We believe that each of these studies and publications is reliable.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and may not contain all of the information that you should consider before deciding whether or not you should exercise your rights. You should read the entire prospectus carefully, including the section entitled “Risk Factors” beginning on page 5 of this prospectus and all other information included in this prospectus in its entirety before you decide whether to purchase any shares offered by this prospectus.

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 18 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 subsidiaries Creative Realities Canada, Inc. a Canadian corporation and ConeXus World Global, LLC, a Kentucky limited liability company. Our other wholly owned subsidiary Creative Realities, LLC, a Delaware limited liability company, has been effectively dormant since October 2015, the date of the merger with ConeXus World Global, LLC.

We generate revenue in this business 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.

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 an early stage company 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 both in the industries on which we currently focus and in others. We also believe that adoption of our solutions depends not only upon the services and solutions that we provide but also depends heavily upon the cost of hardware used to process and display content on them. 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.

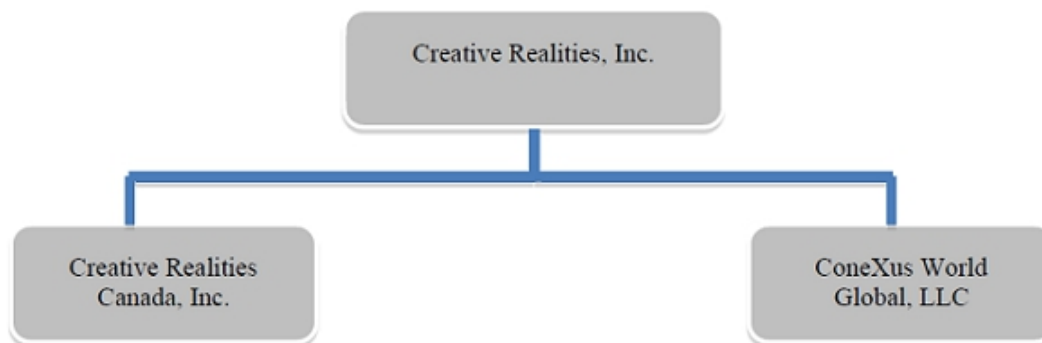
Another key component of our business strategy, given the evolving dynamics of the industry in which we operate, is to acquire and integrate other operating companies in the industry in conjunction with pursuing our organic growth objectives. We believe that the selective acquisition and successful integration 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 is actively pursuing and evaluating alternative 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, based on the foregoing and other factors, the Company can successfully serve as a consolidator of multiple business and technology platforms serving similar markets.

Our company sells products and services primarily throughout North America.

Corporate Organization

Our principal offices are located at 13100 Magisterial Drive, Suite 100, Louisville, KY 40223, and our telephone number at that office is (502) 791-8800. Our fiscal year ends December 31.

Our corporate structure, including our principal operating subsidiaries, is as follows:



The Offering

The summary below describes some of the terms of the offering. For a more complete description of the common stock, see “Description of Securities.”

Issuer	Creative Realities, Inc.
Common stock offered by us	[●] shares of common stock.
Public offering price	[\$●] per share.
Over-allotment option	We have granted the underwriters an option to purchase up to [●] additional shares of common stock. This option is exercisable, in whole or in part, for a period of 45 days from the date of this prospectus.
Common stock outstanding prior to this offering	83,870,344 shares (1)
Common stock outstanding after this offering	[●] shares (1)(2)
Use of proceeds	<p>We estimate that the net proceeds from our issuance and sale of [●] shares of our common stock in this offering will be approximately \$[●], assuming an initial public offering price of \$[●] per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. In this regard, we estimate that our own offering related expenses will be approximately \$[●].</p> <p>We intend to use the net proceeds from this offering to achieve the capital requirements necessary to obtain a listing for the Company’s common stock on a national securities exchange and to fund possible investments in, and acquisitions of, companies, businesses, partnerships, minority investments, products or technologies. Currently, however, there are no commitments or agreements regarding such acquisitions or investments. If no suitable acquisitions are identified, the net proceeds to us from the sale of securities offered by us under this prospectus will be used to fund general corporate activities and working capital requirements.</p> <p>For more information, see “Use of Proceeds” below.</p>
Market and trading symbol	Our common stock is currently traded on the OTCQX Marketplace under the symbol “CREX.”
Proposed NASDAQ Capital Market symbol	[●] (3)

- (1) The number of shares of our common stock outstanding both before and after this offering is based on the number of shares outstanding as of August 2, 2018, and excludes:
- 7,665,500 common shares issuable upon exercise of stock options granted under both our 2006 Amended and Restated Equity Incentive Plan and 2014 Stock Incentive Plan and outstanding as of August 2, 2018, with a weighted-average exercise price of \$0.29 per share;
 - 44,790,585 common shares issuable upon exercise of warrants outstanding as of August 2, 2018, with a weighted-average exercise price of \$0.30 per share;
 - 21,706,636 shares of our common stock issuable upon conversion of Series A Convertible Preferred Stock outstanding as of August 2, 2018; and
 - 15,824,514 shares of our common stock issuable upon conversion of convertible promissory notes outstanding as of August 2, 2018.
- (2) Except as otherwise indicated, the number of shares of common stock presented in this prospectus excludes shares issuable if the underwriters exercise their over-allotment option.
- (3) We have reserved the symbol “[●]” for purposes of listing our common stock on The NASDAQ Capital Market and expect to apply to list our common stock on that exchange.

RISK RELATING TO FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements that would be deemed “forward-looking statements” under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect managements’ present expectations and estimates regarding future expenses, revenue and profitability, trends affecting our financial condition and results of operations, operating efficiencies, revenue opportunities, potential new markets, the ability of our Company to effectively compete in a highly competitive market, and certain other matters. Nevertheless, and despite the fact that management’s expectations and estimates are based on assumptions management believes to be reasonable and data management believes to be reliable, the Company’s actual results, performance or achievements are subject to future risks and uncertainties, any of which could materially affect the Company’s actual performance. Risks and uncertainties that could affect such performance include, but are not limited to:

- the adequacy of funds for future operations;
- future expenses, revenue and profitability;
- trends affecting financial condition and results of operations;
- ability to convert proposals into customer orders under mutually agreed upon terms and conditions;
- general economic conditions and outlook;
- the ability of customers to pay for products and services received;
- the impact of changing customer requirements upon revenue recognition;
- customer cancellations;
- the availability and terms of additional capital;
- industry trends and the competitive environment;
- the impact of the company’s financial condition upon customer and prospective customer relationships;
- potential litigation and regulatory actions directed toward our industry in general;
- the ultimate control of our management and our Board of Directors by our controlling shareholder, Slipstream Funding, LLC;
- our reliance on certain key personnel in the management of our businesses;
- employee and management turnover;
- the existence of material weaknesses in internal controls over financial reporting; and
- the fact that our common stock is presently thinly traded in an illiquid market.

These and other risk factors are discussed in Company reports filed with the SEC.

Although we believe that the assumptions forming the basis of our forward-looking statements are reasonable, any of those assumptions could prove to be inaccurate. Given these uncertainties, you should not attribute any certainty to these forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements due to risks, uncertainties or actual events differing from the assumptions underlying these statements. We assume no obligation to update any forward-looking statements publicly, or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements contained in this press release, even if new information becomes available in the future.

Although federal securities laws provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to certain issuers, including issuers that do not have their equity traded on a recognized national exchange or The Nasdaq Capital Market. Our common stock does not trade on any recognized national exchange or The Nasdaq Capital Market. As a result, we will not have the benefit of this safe harbor protection in the event of any legal action based upon a claim that the material provided by us contained a material misstatement of fact or was misleading in any material respect because of our failure to include any statements necessary to make the statements not misleading.

RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the specific risks described below, the risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, 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, before making an investment decision. See the section of this prospectus entitled “Where You Can Find More Information.” Any of the risks we describe below could cause our business, financial condition, results of operations or future prospects to be materially adversely affected.

The market price of our common stock could decline if one or more of these risks and uncertainties develop into actual events and you could lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, results of operations or future prospects. In addition, some of the statements in this section of the prospectus are forward-looking statements. For more information about forward-looking statements, please see the section of this prospectus entitled “Risks Relating to Forward-Looking Statements” above.

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

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

Except for the second and fourth quarters of 2016 and the first quarter of 2017, we have incurred net losses, have negative cash flows from operations and have a working capital deficit. We incurred net losses in each of the years ended December 31, 2017 and 2016, respectively. We do not know with any degree of certainty whether or when we will become profitable. Even if we are able to achieve profitability in future periods, we may not 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 which may be beyond our control or which cannot be predicted at this time.

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. 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;

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- 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.

We may be required to raise additional funding through public or private financings, including equity financings, through 2019. Any additional equity financings may be dilutive to shareholders and may be completed at a discount to the then-current market price of our common stock. Debt financing, if available, would likely 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 are reliant on the continued support of a related party for adequate financing of our operations.

We may be required to raise additional funding through public or private financings, including equity financings, through 2019. As of the date of this filing, the Company's majority shareholder and investor, Slipstream Communications LLC is the holder of 100% of the Company's outstanding debt instruments including the term loan, secured revolving promissory note and convertible promissory notes. 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 may be unable to implement our business plan if we cannot raise sufficient capital and may be required to pay a high price for capital.

We will need to obtain additional capital to implement our business plan and meet our financial obligations as they become due. We may not be able to raise the additional capital needed or may be required to pay a high price for capital. Factors affecting the availability and price of capital may include the following:

- the availability and cost of capital generally;
- our financial results;
- the experience and reputation of our management team;
- market interest, or lack of interest, in our industry and business plan;
- the trading volume of, and volatility in, the market for our common stock;
- our ongoing success, or failure, in executing our business plan;
- the amount of our capital needs; and
- the amount of debt, options, warrants, and convertible securities we have outstanding.

We may be unable to meet our current or future obligations or to adequately exploit existing or future opportunities if we cannot raise sufficient capital. If we are unable to obtain capital for an extended period of time, we may be forced to discontinue operations.

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 our 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 competing marketing technology suppliers, 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 revenue to decline.

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. 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 could be adversely affected by the loss of several key customers, including a significant related party customer.

Our largest customers account for a majority of our total revenue on a consolidated basis. We had three customers that accounted for 56% of our revenue for each of the years ended December 31, 2017 and 2016. We had 4 and 1 customers that accounted for 66% and 68% of our revenue for the three months ended March 31, 2018 and 2017, respectively. One of these customers for both periods was a related party. We had two customers that accounted for 58% and 63% of revenue for the three-months ended March 31, 2018 and December 31, 2017, respectively. One of these customers for both periods was a related party.

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.

Our financial performance, condition and continued growth could be adversely affected by a key related party.

For the years ended December 31, 2017 and 2016, the Company had sales of \$3,390 and \$1,344, respectively, with a related party entity that was 22.5% owned by a member of senior management. Accounts receivable due from the related party was \$3,017 and \$543 at December 31, 2017 and 2016, respectively. For the quarter ended March 31, 2018, the Company had sales with this same related party entity which is now approximately 20% owned by a member of senior management. Sales were \$417 for the quarter ended March 31, 2018 and \$108 during the quarter ended March 31, 2017.

Most of our contracts are terminable by our customers with limited notice and without penalty payments, and early terminations could have a material 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. 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 software and code used to generate customer invoices. This software and code is 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:

- Richard Mills, our Chief Executive Officer;
- John Walpuck, our Chief Operating Officer; and
- Will Logan, our Chief Financial Officer

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.

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 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.

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; the Company's dedicated and virtualized server capacity located at its data center services provider partner and a geo-redundant micro-data center location; and the Company's 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 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 the Company's 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.

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 existing competitive advantage. Over the long term, this may harm our revenues growth and our ability to become profitable.

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.

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. Weakness in the United States and worldwide economy has had and could continue to 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.

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 history 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 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 THIS OFFERING AND OUR COMPANY

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 after accounting for a significant amount of 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.

Failure to achieve and maintain effective internal controls could limit our ability to detect and prevent fraud and thereby adversely affect our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. Nevertheless, all internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our inability to maintain an effective control environment may cause investors to lose confidence in our reported financial information, which could in turn have a material adverse effect on our stock price. We have identified several material weaknesses in internal controls and have concluded in our 2017 and 2018 filings that our disclosure controls and procedures and internal controls over financial reporting were not effective at the reasonable assurance level.

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

Our controlling shareholder, Slipstream Communications, LLC, has beneficial ownership of 80,714,017 shares of common stock, including common shares that are beneficially owned by an affiliate of Slipstream Communications named Slipstream Funding, LLC. These shares represent beneficial ownership of approximately 59.93% of our common stock (on an as-converted basis, and assuming no other convertible securities, options and warrants are exercised) as of the date of August 2, 2018. In addition, in the last quarter of 2016 and the first quarter of 2017, Slipstream Communications, LLC purchased all of our outstanding debt from the original debtholders. The terms of the debt have remained the same. As a result, Slipstream Funding has the ability to control our management and affairs through the election and removal of our entire 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 concentrated control 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 control 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. 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.

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.

Our common stock trades only in an illiquid trading market.

Trading of our common stock is conducted on the OTC Markets (OTCQX). This has an adverse effect on the liquidity of our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us and our common stock. This may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for our common stock.

There is not now and there may not ever be an active market for shares of our common stock.

In general, there has been minimal trading volume in our common stock. The small trading volume will 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.

We do not intend to pay dividends on our common stock for the foreseeable future. We will, however, pay dividends on our Series A Convertible Preferred Stock.

When permitted by Minnesota law, we are required to pay dividends to the holders of our Series A Convertible Preferred Stock, each share of which carries a \$1.00 stated value. There are presently 5,535,192 shares of Series A Convertible Preferred Stock outstanding. Our Series A Convertible Preferred Stock entitles its holders to:

- a cumulative 6% dividend, payable on a semi-annual basis in cash unless (i) we are unable to pay the dividend in cash under applicable law, or (ii) we have not demonstrated positive cash flow during the prior quarter reported on our Form 10-Q, in which case we may at our election pay the dividend through either the issuance of additional shares of preferred stock or, from and after the three-year anniversary of the issuance of the preferred stock in duly authorized, validly issued, fully paid and non-assessable shares of common stock;
- in the event of a liquidation or dissolution of the Company, a preference in the amount of all accrued but unpaid dividends plus the stated value of such shares before any payment shall be made or any assets distributed to the holders of any junior securities, including our common stock;
- convert their preferred shares into our common shares at a conversion rate that is presently \$0.255 per share (the equivalent of approximately 3.92 shares of common for each full share of preferred stock converted), subject, however, to full-ratchet price protection in the event that we issue common stock below the then-current conversion price (subject to certain customary exceptions); and
- vote their preferred shares on an as-if-converted basis.

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We have the right to call and redeem some or all of such preferred shares, subject to a 30-day notice period and certain other conditions, at a price equal to \$1.00 per share plus accrued but unpaid dividends thereon. Holders of Series A Convertible Preferred Stock have no preemptive or cumulative-voting rights.

We do not anticipate that we will pay any dividends for the foreseeable future on our common stock. Accordingly, any return on an investment in us will be realized only when you sell shares of our common stock. When legally permitted, we must expect to pay dividends to our preferred shareholders.

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.

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

We are in an early stage of operations and have limited resources. 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.

USE OF PROCEEDS

We estimate that the net proceeds from our issuance and sale of [●] shares of our common stock in this offering will be approximately \$[●], assuming an initial public offering price of \$[●] per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. In this regard, we estimate that our own offering expenses will be approximately \$[●].

A \$0.01 increase or decrease in the assumed initial public offering price would increase or decrease our net proceeds from this offering by \$[●], assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. An increase or decrease of 1,000,000 shares in the number of shares offered by us, as set forth on the cover page of this prospectus, would increase or decrease our net proceeds from this offering by \$[●], assuming no change in the assumed initial public offering price per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering to achieve the capital requirements necessary to obtain a listing for the Company's common stock on a national securities exchange and to fund possible investments in, and acquisitions of, companies or their assets, businesses, partnerships, minority investments, products or technologies. Currently, however, there are no commitments or agreements regarding such acquisitions or investments. If no suitable acquisitions are identified, the net proceeds to us from the sale of securities offered by us under this prospectus will be used to fund general corporate activities and working capital requirements.

We believe that the net proceeds from this offering, together with our existing cash and cash equivalents, including our available borrowings under our term loan facility, will enable us to fund our operating expenses and capital expenditure requirements at least through the entirety of 2019, even assuming we are able to use a significant portion of the net proceeds from this offering to fund acquisition activity. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect.

This expected use of the net proceeds from this offering and our existing cash and cash equivalents represents our intentions based upon our current plans and business conditions. The amounts and timing of our actual expenditures may vary significantly depending on numerous factors, including our ability to identify and consummate acquisitions and any unforeseen cash needs. As a result, our management will retain broad discretion over the allocation of the net proceeds from this offering. We have no current agreements, commitments or understandings for any material acquisitions or licenses of any products, businesses or technologies.

Pending our use of the net proceeds from this offering, we intend to invest the net proceeds in money market funds, government-insured bank deposit accounts or U.S. government securities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion should be read in conjunction with the financial statements and related notes that appear elsewhere in this prospectus. This discussion contains forward-looking statements that involve significant uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in "Risk Factors" elsewhere in this report. For further information, see "Risk Relating to Forward-Looking Statements" above.

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 18 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 subsidiaries Creative Realities Canada, Inc. a Canadian corporation and ConeXus World Global, LLC, a Kentucky limited liability company. Our other wholly owned subsidiary Creative Realities, LLC, a Delaware limited liability company, has been effectively dormant since October 2015, the date of the merger with ConeXus World Global, LLC.

We generate revenue in this business 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.

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

The Company's significant accounting policies are described in Note 2 of the Company's consolidated financial statements included elsewhere in this filing. The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. Certain accounting policies involve significant judgments, assumptions, and estimates by management that could have a material impact on the carrying value of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts not completed as of the date of adoption. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. Under this method, we concluded that the cumulative effect of applying this guidance was not material to the financial statements and no adjustment to the opening balance of accumulated deficit was required on the adoption date.

Under ASC 606, the Company accounts 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, the Company satisfies the performance obligations

The Company combines contracts with the same customer into a single contract for accounting purposes when the contracts are entered into at or near the same time and the contracts are negotiated as a single commercial package, consideration in one contract depends on the other contract, or the services are considered a single performance obligation. 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.

As discussed in more detail below, 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. 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.

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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.

Deferred contract acquisition costs were evaluated for inclusion in other assets; however, the Company elected to use the practical expedient for recording an immediate expense for those 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.

The Company 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's 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 typically generate revenue through the following sources:

- Hardware:
 - System hardware sales – displays, computers and peripherals
- Services and Other:
 - Professional implementation and installation services
 - Software design and development services
 - Software as a service, including content management
 - Maintenance and support services

System hardware sales

Included in "hardware" are system hardware sales whereby 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. The prior period amounts and data have been reclassified in the financial statements and related notes in order to conform to the 2018 presentation.

Installation services

The Company performs outsourced installation services for customers and recognizes revenue upon completion of the installations.

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.

The aggregate amount of the transaction price allocated to installation service performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2018 were \$550. We expect to recognize approximately \$433 during the three months ended June 30, 2018 and the remainder in the three months ended December 31, 2018.

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 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. We account for revenue from these services in accordance with ASC 985-20-15-5 and recognize revenue ratably over the performance period.

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 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 over the term of the agreement in proportion to the costs incurred in fulfilling performance obligations under the contract.

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.

In addition to changes in the timing of when we record variable consideration, ASC 606 provided clarification about the classification of certain costs relating to revenue arrangements with customers. As a result of our analysis, we did not identify any components of our revenue transactions which required reclassification between gross and net presentation.

Accounts Receivable

Our unsecured accounts receivable are customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts. We had a factoring arrangement with Allied Affiliated Funding for the majority of our accounts receivable during the period October 15, 2015 to August 16, 2016. We record an allowance for doubtful accounts receivable for amounts due from third parties that we do not expect to collect. We estimate the allowance based on historical write-off experience and current economic conditions and also consider factors such as customer credit, past transaction history with the customer and changes in customer payment terms when determining whether the collection of a receivable is reasonably assured. Historically, less than 1.0% of net sales ultimately prove to be uncollectible. Accounts receivable are written off after all reasonable collection efforts have failed.

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. 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 and Intangible Assets

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. The Company has no indefinite-lived intangible assets. We test goodwill for impairment by comparing the book value to the fair value at the reporting unit level. The Company has 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. The Company bases its fair value estimates on assumptions it believes 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, the Company's market capitalization could fluctuate from time to time. Such fluctuation may be an indicator of possible impairment of goodwill if the Company's market capitalization falls below its book value. If this situation occurs, the Company will perform the required detailed analysis to determine if there is impairment.

We have not made any material changes in our reporting units or the accounting methodology we use to assess impairment of goodwill since September 30, 2017. We updated our goodwill analysis as of December 31, 2017 using actual fourth quarter 2017 results and updated projected 2018 results and concluded no impairment exists. The valuation of goodwill and intangible assets 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.

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

<i>Acquired Intangible Asset:</i>	<i>Amortization Period: (years)</i>
Technology platform and patents	4 and 5
Trademark	5
Customer relationships	3

Intangible assets are evaluated for impairment if events and circumstances warrant by comparing the fair value of the intangible asset with its carrying amount. The impairment evaluation involves testing the recoverability of the asset on an undiscounted cash-flow basis, and, if the asset is not recoverable, recognizing impairment charge, if necessary, to reduce the asset's carrying amount to its fair value. There were no indicators of impairment identified in 2017. The Company recognized an impairment loss on its technology platform for the year ended December 31, 2016.

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. The Tax Act made broad and significant changes to the U.S. tax code that affects the year ended December 31, 2017, including, but not limited to, a change in the federal rate from 35% to 21% effective January 1, 2018.

The Company recognizes 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, 2017 and 2016 a full valuation allowance is recorded against our deferred tax assets to reduce the consolidated deferred tax asset to zero. 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.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

FASB ASC 820-10 *Fair Value Measurements and Disclosures*, requires disclosure of the estimated fair value of an entity's financial instruments. Such disclosures, which pertain to the Company's financial instruments, do not purport to represent the aggregate net fair value of the Company.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of those instruments. The fair value of the warrant liabilities is calculated using a Black-Scholes model, which approximates a binomial model due to probability factors used to determine the fair value. The calculation of this liability is based on Level 3 inputs. See Notes 3 and 11 for further discussion on the valuation of warrant liabilities.

Results of Operations

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

Results of Operations

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

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The tables presented below compare our results of operations adjusted for full retrospective adoption of certain accounting guidance described in Note 2 to the consolidated financial statements issued on Form 10-K for the year-ended December 31, 2017 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.

	For the Years Ended		Change	
	December 31,		Dollars	%
	2017	2016		
Sales	\$ 17,698	13,673	\$ 4,025	29%
Cost of sales (exclusive of depreciation and amortization shown separately below)	10,309	6,815	3,494	51%
Gross profit	7,389	6,858	531	8%
Sales and marketing expenses	2,078	1,061	1,017	96%
Research and development expenses	991	893	98	11%
General and administrative expenses	6,944	6,393	551	9%
Depreciation and amortization expense	1,505	2,003	(498)	-25%
ConeXus acquisition stock issuance expense	1,971	-	1,971	NM
Impairment loss on intangible assets	-	1,065	(1,065)	-100%
Total operating expenses	13,489	11,415	2,074	18%
Operating loss	(6,100)	(4,557)	(1,543)	34%
Other income (expenses):				
Interest expense	(1,610)	(1,636)	26	-2%
Change in fair value of warrant liability	(153)	(42)	(111)	264%
Gain on settlement of debt	872	1,008	(136)	-13%
Other income	2	164	(162)	-99%
Total other expense	(889)	(506)	(383)	76%
Net loss before income taxes	(6,989)	(5,063)	(1,926)	38%
Benefit/(provision) from income taxes	39	365	(326)	-89%
Net loss	\$ (6,950)	\$ (4,698)	\$ (2,252)	48%

NM - not meaningful

Sales

Sales increased by \$4,025 or 29% in 2017 compared to 2016. The \$4,025 increase was driven by approximately \$1,230 from two new large customers and the broadening of sales within existing customer relationships, including an increase in sales to a related party of \$1,344.

Gross Profit

Gross profit margin on a percentage basis decreased to 42% in 2017 from 50% in 2016, and increased by \$531 in absolute dollars during the same period. The decrease in gross profit margin percentage and increase in absolute dollars is primarily the result of a lower margin sales mix on increased sales to customers.

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. Total sales and marketing expenses increased to \$2,078 in 2017 from \$1,061 in 2016. The increase was primarily due to an increase in payroll expense related to our growing sales force and related travel expenses.

Research and Development Expenses

Research and development expenses increased 11% to \$991 in 2017 from \$893 in 2016, primarily as a result of additional headcount focused on these activities.

General and Administrative Expenses

Total general and administrative expenses increased 9% to \$6,944 in 2017 from \$6,393 in 2016. The increase was primarily due to an increase in personnel costs, including recruiting fees, offset primarily by decreases in legal fees.

Depreciation and Amortization Expenses

Depreciation and amortization expenses decreased 25% to \$1,505 in 2017 from \$2,003 in 2016 primarily as a result of the reduction of intangible assets from the impairment recognized in the third quarter of 2016.

Interest Expense

See Note 6 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

See Note 3 to the Consolidated Financial Statements for a discussion of the Company's non-cash change in Warrant Liability.

Gain on Settlement of Debt

During 2017, the Company settled and/or wrote off debt of \$1,159 for \$288 cash payment and recognized a gain of \$872. This debt included \$693 of payables previously recorded by our dissolved subsidiary Broadcast International, Inc, as we had exhausted all efforts to identify and settle these obligations in the first quarter of 2017.

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In August 2016, the Company settled debt of \$90 for \$35 cash payment, resulting in a gain on debt settlement of \$55. In June 2016, the Company settled debt of \$614 for \$123 cash payment and the issuance of 409,347 shares of the Company's restricted common stock, fair value at conversion date of \$85, and recognized a gain on debt restructuring of \$406. In conjunction with this debt settlement, an additional 809,842 shares of restricted common stock were issued to investors for cash to facilitate the settlement of a portion of the \$614 debt. In March 2016, the Company issued 8.00% nonconvertible promissory notes in favor of certain general unsecured creditors in the aggregate principal amount of \$288 to settle an aggregate amount of \$839 of accounts payable, accrued expenses and other liabilities. The aggregate amount of payables, accrued expenses and other liabilities was subsequently revised to \$796. In September 2016, the amounts previously settled with nonconvertible promissory notes were paid in cash of \$249 resulting in a gain on the debt settlement of \$547. No gain was previously recorded.

Summary Quarterly Financial Information

The following represents unaudited financial information derived from the Company's annual and quarterly financial statements, as adjusted for the retrospective adoption of ASU No. 2017-11:

Quarters ended	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net sales	\$ 4,136	\$ 3,575	\$ 3,568	\$ 6,419
Cost of sales	2,636	2,157	1,944	3,572
Gross profit	1,500	1,418	1,624	2,847
Operating expenses, excluding depreciation and amortization	2,793	4,631	2,238	2,322
Depreciation/amortization	321	374	408	402
Operating (loss)/income	(1,614)	(3,587)	(1,022)	123
Other expenses/(income)	(177)	679	717	(369)
Net (loss)/income	<u>(1,437)</u>	<u>(4,266)</u>	<u>(1,739)</u>	<u>492</u>

Quarters ended	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Net sales	\$ 5,501	\$ 2,708	\$ 3,029	\$ 2,435
Cost of sales	2,826	1,387	1,312	1,290
Gross profit	2,675	1,321	1,717	1,145
Operating expenses, excluding depreciation and amortization	2,108	2,060	1,976	2,203
Depreciation/amortization	388	540	536	539
Impairment loss on intangible assets	-	1,065	-	-
Operating (loss)/income	179	(2,344)	(795)	(1,597)
Other expenses/(income)	934	(130)	(913)	250
Net (loss)/income	<u>(755)</u>	<u>(2,214)</u>	<u>118</u>	<u>(1,847)</u>

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 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.

Reconciliation of GAAP to Non-GAAP EBITDA

The following unaudited table presents the Company's GAAP (Net Loss) measure, and the corresponding adjustments, to calculate "EBITDA" for the quarters ending December 31, 2017 and 2016, September 30, 2017 and 2016, June 30, 2017 and 2016 and March 31, 2017 and 2016, as adjusted for the retrospective adoption of ASU No. 2017-11:

Quarters ended	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
GAAP net (loss)/income	(1,437)	(4,266)	(1,739)	492
Interest expense:				
Amortization of debt discount	100	328	133	195
Other interest	330	169	140	215
Gain on settlement of debt	(6)	-	-	(866)
Change in warrant liability	(340)	116	369	8
Additional ConeXus acquisition expense	-	1,971	-	-
Depreciation/amortization	321	374	408	402
Other expenses/(income)	(261)	66	75	79
EBITDA	(1,293)	(1,242)	(614)	525
Quarters ended	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
GAAP net (loss)/income	\$ (755)	\$ (2,214)	\$ 118	\$ (1,847)
Interest expense:				
Amortization of debt discount	297	224	177	154
Other interest	228	187	175	194
Gain on settlement of debt	(55)	(547)	(406)	-
Impairment loss on intangible assets	-	1,065	-	-
Change in warrant liability	400	84	(293)	(148)
Depreciation/amortization	388	540	536	539
Other expenses/(income)	64	(78)	(566)	51
EBITDA	\$ 567	\$ (739)	\$ (259)	\$ (1,057)

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

The tables presented below compare our results of operations adjusted for full retrospective adoption of certain accounting guidance described in Note 1 of the condensed consolidated financial statements issued on Form 10-Q for the three-months ended March 31, 2018 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.

	For the three months ended		Change	
	March 31,		Dollars	%
	2018	2017		
Sales	\$ 4,066	\$ 6,419	\$ (2,353)	-37%
Cost of sales (exclusive of depreciation and amortization shown below)	2,557	3,572	(1,015)	-28%
Gross profit	1,509	2,847	(1,338)	-47%
Sales and marketing expenses	503	418	85	20%
Research and development expenses	321	157	164	104%
General and administrative expenses	1,703	1,747	(44)	-3%
Depreciation and amortization expense	327	402	(75)	-19%
Lease termination expense	474	-	474	100%
Total operating expenses	3,328	2,724	604	22%
Operating income/(loss)	(1,819)	123	(1,942)	-1579%
Other income/(expenses):				
Interest expense	(574)	(410)	(164)	40%
Change in fair value of warrant liability	197	(8)	205	-2563%
Gain on settlement of debt	-	866	(866)	100%
Other income/(expense)	4	-	4	100%
Total other income/(expense)	(373)	448	(821)	-183%
Net income/(loss) before income taxes	(2,192)	571	(2,763)	-484%
Provision from income taxes	(46)	(79)	33	-42%
Net income/(loss)	\$ (2,238)	\$ 492	\$ (2,730)	-555%

Sales

Sales decreased by \$2,353 or 37% in 2018 compared to 2017 primarily as the result of a reduction on nonrecurring project sales with a longstanding client, which sales were \$4,200 in 2017 and \$1,193 in 2018. Excluding those nonrecurring project sales from the customer in each period presented, sales increased \$654, or 29% from \$2,219 to \$2,873 as the result of the continued growth of sales within our key existing customer relationships.

Gross Profit

Gross profit margin on a percentage basis decreased to 37% in 2018 from 44% in 2017 and decreased by \$1,338 in absolute dollars during the same period. The decrease in gross profit margin percentage and absolute dollars is the result of the reduction in nonrecurring project sales from one longstanding customer noted above which had a higher margin as it was services-related.

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 increased by \$85 or 20% in 2018 compared to 2017. The increase was primarily due to an increase in payroll expense related to our growing sales force and related travel expenses.

Research and Development Expenses

Research and development expenses increased by \$164 or 104% in 2018 compared to 2017 as the result of an increase in amortization expense related to capitalized software and salaries costs driven by an increased investment in products and offerings in the most recent twelve months.

General and Administrative Expenses

Total general and administrative expenses decreased by \$44 or 3% in 2018 compared to 2017 as a result of fewer office locations operated in the current year.

Depreciation and Amortization Expenses

Depreciation and amortization expenses decreased by \$75 or 19% in 2018 compared to 2017. This decrease was primarily a result of the reduction in amortization expense related to a lower cost basis in intangible assets as certain assets become fully amortized.

Lease Termination Expense

On August 10, 2017, we announced the planned closure of our office facilities located at 22 Audrey Place, Fairfield, New Jersey 07004 which housed our previous operations center and ceased use of the facilities in February 2018. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$474 to accrue for the remaining rent under the lease term, net of anticipated subtenant rental income.

Interest Expense

See Note 8 to the condensed consolidated financial statements for a discussion of the Company's debt and related interest expense obligations.

Change in Fair Value of Warrant Liability

See Note 5 to the condensed consolidated financial statements for a discussion of the Company's non-cash change in warrant liability for the quarter ended March 31, 2018.

Gain on Settlement of Debt

In March 2017, the Company settled and/or wrote off debt of \$1,109 for \$243 cash payment and recognized a gain of \$866. This debt included \$693 of payables previously recorded by our dissolved subsidiary Broadcast International, Inc, as we had exhausted all efforts to identify and settle these obligations in the first quarter of 2017. There were no such settlements in 2018.

Summary Quarterly Financial Information

The following represents unaudited financial information derived from the Company's quarterly financial statements:

Quarters ended	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net sales	\$ 4,066	\$ 4,136	\$ 3,575	\$ 3,568	\$ 6,419
Cost of sales	2,557	2,636	2,157	1,944	3,572
Gross profit	<u>1,509</u>	<u>1,500</u>	<u>1,418</u>	<u>1,624</u>	<u>2,847</u>
Operating expenses, inclusive of one-time lease termination expense, excluding depreciation and amortization	3,001	2,793	4,631	2,238	2,322
Depreciation/amortization	<u>327</u>	<u>321</u>	<u>374</u>	<u>408</u>	<u>402</u>
Operating (loss)/income	(1,819)	(1,614)	(3,587)	(1,022)	123
Other expenses/(income)	419	(177)	679	717	(369)
Net (loss)/income	<u>\$ (2,238)</u>	<u>\$ (1,437)</u>	<u>\$ (4,266)</u>	<u>\$ (1,739)</u>	<u>\$ 492</u>

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.

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The following unaudited table presents the Company's GAAP (Net Loss) measure, and the corresponding adjustments, to calculate "EBITDA" and "Adjusted EBITDA" for the quarters ending March 31, 2018 through March 31, 2017, as adjusted for the retrospective adoption of ASU No. 2017-11:

Quarters ended	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
GAAP net (loss)/income	\$ (2,238)	\$ (1,437)	\$ (4,266)	\$ (1,739)	\$ 492
Interest expense:					
Amortization of debt discount	345	100	328	133	195
Other interest	229	330	169	140	215
Depreciation/amortization	327	321	374	408	402
Income tax expense/(benefit)	46	(190)	77	73	79
EBITDA	\$ (1,291)	\$ (876)	\$ (3,318)	\$ (985)	\$ 1,383
Adjustments					
Change in warrant liability	(197)	(340)	116	369	8
Gain on settlement of debt	-	(6)	-	-	(866)
Lease termination expense	474	-	-	-	-
Additional ConeXus acquisition expense	-	-	1,971	-	-
Other expense/(income)	4	(71)	(11)	2	-
Adjusted EBITDA	\$ (1,010)	\$ (1,293)	\$ (1,242)	\$ (614)	\$ 525

Liquidity and Capital Resources

We have incurred net losses and negative cash flows from operating activities for the years ended December 31, 2017 and 2016. For the three months ended March 31, 2018 and 2017 we recognized net income/(loss) of \$(2,238) and \$492 respectively. As of March 31, 2018, we had cash and cash equivalents of \$742 and working capital deficit of \$(5,388).

On November 13, 2017, Slipstream Communications, LLC, a related party, extended the maturity date of our term loan to August 17, 2019 and extended the maturity date of our convertible promissory notes on a rolling quarter addition basis which is now May 25, 2019. On January 16, 2018, Slipstream extended the maturity date of our revolving promissory note to January 16, 2019. While management believes that due to the extension of our debt maturity date, our current cash balance and our operational forecast for 2018, we can continue as a going concern through at least May 15, 2019, given our net losses and working capital deficit, we obtained a continued support letter from Slipstream Communications, LLC through May 15, 2019. 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 to the Condensed Consolidated Financial Statements for a discussion of the Company's debt obligations.

Operating Activities

As of December 31, 2017, we had an accumulated deficit of \$(26,231). The cash flows provided by/(used) in operating activities was (\$1,112) and \$2,979 for the three months ended March 31, 2018 and 2017, respectively. The cash used in operating activities was driven by the Company's net loss (\$2,238), reduction in accounts payable (\$489) and change in the fair value of the warrant liability (\$197) offset by recording of the lease termination liability and a reduction in accounts receivable of \$596.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2018 was (\$149) compared to (\$141) during 2017. The use of cash in both periods represents acquisition of capital assets, primarily related to the capitalization of software costs. We currently do not have any material commitments for capital expenditures as of March 31, 2018, nor do we anticipate any significant expenditures in 2018.

Financing Activities

Net cash provided by/(used in) financing activities during the three months ended March 31, 2018 was \$1,000 compared to (\$786) in 2017. The increase was related to issuance of debt in 2018 as compared to paying off debt in January 2017.

Contractual Obligations

We have no material commitments for capital expenditures, and we do not anticipate any significant capital expenditures for the remainder of 2018.

Off-Balance Sheet Arrangements

During the three months ended March 31, 2018, we did not engage in any off-balance sheet arrangements set forth in Item 303(a) (4) of Regulation S-K.

BUSINESS

General

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 18 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 subsidiaries Creative Realities Canada, Inc. a Canadian corporation and ConeXus World Global, LLC, a Kentucky limited liability company. Our other wholly owned subsidiary Creative Realities, LLC, a Delaware limited liability company, has been effectively dormant since October 2015, the date of the merger with ConeXus World Global, LLC.

We generate revenue in this business 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.

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 an early stage company 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 both in the industries on which we currently focus and in others. We also believe that adoption of our solutions depends not only upon the services and solutions that we provide but also depends heavily upon the cost of hardware used to process and display content on them. 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 is actively pursuing and evaluating alternative 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, based on the foregoing and other factors, the Company can successfully serve as a consolidator of multiple business and technology platforms serving similar markets.

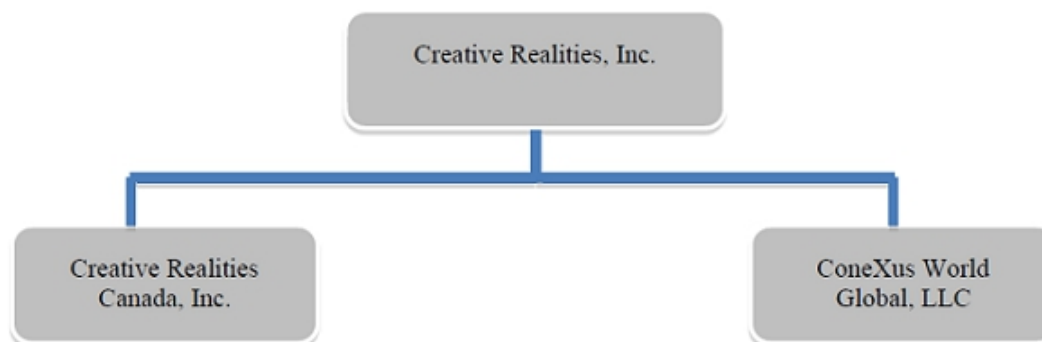
Our company sells products and services primarily throughout North America.

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.

The legal entity that is the registrant was 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.

Our corporate structure, including our principal operating subsidiaries, is as follows:



Our fiscal year ends December 31. Neither we nor any of our predecessors have been in bankruptcy, receivership or any similar proceeding.

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

Over approximately the past 18-24 months, 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; (ii) the continued evolution of mobile, social, software and hardware technologies, applications and tools; (iii) the increasing sophistication of social networking platforms; (iv) increasingly complex customer requirements related to their specific digital marketing technology and solution objectives; and (vi) 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 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.

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 and 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 as a result of new construction and the recent economic recovery in general. These general economic improvements generally make it easier for our customers to justify decisions to invest in digital marketing technology solutions.

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.

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 solution stack. 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 Convergent Media Systems. 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.

Territories

Our Company sells products and services primarily throughout North America.

Employees

We have approximately 100 employees as of August 2, 2018. We do not have any employees that operate under collective-bargaining agreements.

Legal Proceedings

We are involved in certain legal claims and proceedings incidental to our business, including customer bankruptcy and employment-related matters from time to time, and other legal matters that arise in the normal course of business. We believe these claims and proceedings are not out of the ordinary course for a business of the type and size in which we are engaged. While we are unable to predict the ultimate outcome of these claims and proceedings, management believes there is not a reasonable possibility that the costs and liabilities of such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

Properties

Our headquarters is located at 13100 Magisterial Drive, Suite 100, Louisville, KY 40223. There, we have approximately 7,600 square-feet of 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 \$18 and escalates 1% annually through the end of the lease term in January 2024. The corporate phone number is (502) 791-8800.

We have office space with approximately 18,000 square feet located at 22 Audrey Place, Fairfield, New Jersey 07004 which housed our previous operations center. On August 10, 2017, we announced the planned closure of our office facilities located at 22 Audrey Place, Fairfield, New Jersey 07004 which housed our previous operations center and ceased use of the facilities in February 2018. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$474 to accrue for the remaining rent under the lease term, net of anticipated subtenant rental income in the first quarter of 2018.

MANAGEMENT

General

Our Board of Directors consists of Alec Machiels (Chairman), Rick Mills (CEO), David Bell, Donald Harris, Patrick O'Brien and Eric Bertrand. The following table sets forth the name and position of each of our current directors and executive officers.

Name	Age	Positions
Alec Machiels	45	Director (Chairman)
David Bell	74	Director
Donald A. Harris	65	Director
Richard Mills	63	Chief Executive Officer and Director
John Walpuck	56	Chief Operating Officer
Patrick O'Brien	71	Director
Eric J. Bertrand	45	Director
Will Logan	34	Chief Financial Officer

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

Alec Machiels is a Partner at Pegasus Capital Advisors, L.P., a private equity fund manager, and joined our Board of Directors in August 2014 in connection with the Creative Realities merger. Mr. Machiels is a member of the Executive, Investment and Sustainability Committees, as well as the co-chair of the Energy and Wellness Committees at Pegasus Capital Advisors, L.P. He has over 17 years of private equity investing and investment banking experience. Previously, Mr. Machiels was a Financial Analyst in the Financial Services Group at Goldman Sachs International in London and in the Private Equity Group at Goldman Sachs and Co. in New York. Investments in which he has been highly involved in include Molycorp Minerals, Traxys, Pure Biofuels, Olympus, Slipstream Communications, Coffeyville Resources and Merisant Company. Mr. Machiels previously served on the board of Pure Biofuels from 2012-2018 and currently serves on the boards of Olympus, Slipstream Communications, NSI, and Valogix. He was also a member of the Board of Trustees of the American Federation of Arts and Chair of its Endowment Committee 2011- 2013. Mr. Machiels also co-founded Potentia Pharmaceuticals and Apellis Pharmaceuticals – two biotechnology companies in the complement immunotherapy space – as well as Revon Systems, a healthcare IT company. Mr. Machiels is a graduate of Harvard Business School, KU Leuven Law School in Belgium and Konstanz University in Germany.

David Bell joined our Board of Directors in August 2014 in connection with the Creative Realities merger. 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 the Broadcast International merger. He has been President of 1162 Management, 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. 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 Creative Realities as reported herein. 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.

John Walpuck has served as our Chief Operating Officer since April 2014 and previously served as our Chief Financial Officer from April 2014 – May 2018. Mr. Walpuck brings over 25 years of experience in financial and general management to Creative Realities, and over 20 years of experience in a broad range of digital media services, software, Internet services, online businesses, virtualization, and other technology industry sectors. Prior to Creative Realities, Mr. Walpuck served as the Chief Operating Officer and Chief Financial Officer of AllDigital, Inc. a digital broadcasting solutions company for the period from 2010 through 2013. Mr. Walpuck also served as the President and CEO of Disaboom, Inc., an online business and social network dedicated to people with disabilities, where he worked from 2007 to 2010. Prior to Disaboom, from 2005 to 2007, he served as the Senior Vice President and Chief Financial Officer of Nine Systems Corporation, a digital media services company. Mr. Walpuck has an MBA from the University of Chicago. He is a CMA, CPA and holds other professional certifications.

Patrick O'Brien has been a member of our Board of Directors since November 2015. Mr. O'Brien is the Managing Director & Principal of Granville Wolcott Advisors, which he formed in 2009 to provide consulting, due diligence and asset management services. Mr. O'Brien is a seasoned executive and business advisor, with 40 years of multi-unit international management experience with an emphasis in financial analysis and strategic business development. During the past five years, Mr. O'Brien has served on the boards of Merriman Holdings, Inc., Ironclad Performance Wear Corporation, Cinedigm, Inc., and is Chairman and CEO of LVI Liquidation Corp. (formerly Livevol, Inc.) He is a graduate of the Eli Broad School of Business of Michigan State University with BA in Hotel Management.

Eric J. Bertrand joined our Board of Directors in May 2016. Mr. Bertrand is the Chief Executive Officer and a partner of modop, a full-service advertising agency with offices in New York, Los Angeles, Miami, Portland and Panama City, Panama. Prior to modop, Mr. Bertrand was a private fund manager, having invested \$300 million in 60+ companies over the past 20 years. Mr. Bertrand was a General Partner with Palisade Capital Management, where he jointly managed a private equity fund and venture capital funds. Mr. Bertrand began his private equity career with Aetna's Private Equity Group. Today, Mr. Bertrand is a Board member of modop, Silverlight Digital, several privately held companies as well as international charities, Unite For Sight and the Alive Inside Foundation. Eric holds an MBA in Finance and Entrepreneurial Studies from New York University. He graduated from Bryant University with a BS in Business Administration concentrating on Finance and Applied Actuarial Mathematics.

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. The holders of a majority of our outstanding Series A Convertible Preferred Stock also have the right, but not the obligation, to designate one person to serve as a director on our board. As of the date of this Annual Report, the preferred shareholders have not exercised this right.

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, and other background, in addition to any unique skills or attributes associated with a director. With regard to Mr. Machiels, the Board of Directors considered his background and experience with the private investing market and his long-standing oversight of the Creative Realities business during such time as it was wholly owned by Pegasus Capital. 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. Bertrand, the Board considered his deep experience within the media industry and significant private equity background. With regard to Mr. Mills, the Board of Directors considered his extensive background and experience in the industry. With regard to Mr. O'Brien, the Board of Directors considered his background as an advisor and extensive management experience. Finally, with regard to Mr. Harris, the Board of Directors considered his extensive experience in the telecommunications industry and association with private equity investors.

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The Board of Directors has determined that there are no “independent” directors as such term is defined in Section 5605(a)(2) of the Nasdaq listing rules, and meets the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The preceding disclosure respecting director independence is required under applicable SEC rules. Nevertheless, as a corporation whose shares are listed for trading on the OTCQX Markets, we presently are not required to have any independent directors at all on our board, or any independent directors serving on any particular committees of the Board of Directors. The Board of Directors has determined that at least one member of the board, Mr. Machiels, is an “audit committee financial expert” as that term is defined in Regulation S-K promulgated under the Securities Exchange Act of 1934. Mr. Machiels’ relevant experience in this regard is detailed above, which includes past employment experience in finance and investment banking. Mr. Machiels is not an “independent” member of the board as described above. The Board of Directors has determined that each director is able to read and understand fundamental financial statements.

Board and Committee Matters

The Company does not have a standing nominating committee, compensation committee or audit committee. Instead, the entire Board of Directors shares the responsibility of identifying potential director-nominees to serve on the Board of Directors, making compensation decisions and performing the functions of an audit committee. The Board believes the engagement of all directors in these functions is important at this time in the Company’s development in light of the Company’s recent acquisition activities.

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.

EXECUTIVE AND DIRECTOR COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for 2017 and 2016:

Name and Principal Position	Year	Salary (\$ (a))	Bonus (\$)	Stock Awards (\$)	Option Awards (\$ (b))	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Richard Mills	2017	270,000	-	-	-	-	-	270,000
Chief Executive Officer and Director	2016	270,000	-	-	-	-	-	270,000
John Walpuck	2017	240,000	-	-	-	-	-	240,000
Chief Operating Officer	2016	240,000	-	-	-	-	-	240,000
Will Logan	2017	24,000	-	-	92,592	-	-	116,592
Chief Financial Officer								

(a) In the case of Mr. Logan, represents his prorated annual base salary of \$156,000., Mr. Logan joined the Company on November 6, 2017.

(b) Represents the grant date fair value based on the Black-Scholes value determined as of November 6, 2017, the grant date.

The material terms of employment agreements and payments to be made upon a change in control are discussed below, in the narrative below under the caption “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. There are currently plans to implement an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3% on April 1, 2018.

Employment Agreements and Potential Payments upon Termination or Change in Control

We employ Richard Mills as our Chief Executive Officers and John Walpuck as our Chief Operating Officer. Mr. Mills’ agreement is effective for a two-year term, which automatically renews for additional one-year periods unless either the Company or Mr. Mills elects not to extend the employment term. The agreement provides for an initial annual base salary of \$270,000, subject to annual increases but generally not subject to decreases. Mr. Walpuck’s employment agreement is effective for a one-year term, which automatically renews for additional one-year periods unless either the Company or Mr. Walpuck elects not to extend the employment term. The agreement provides for an initial annual base salary of \$240,000, subject to annual increases but generally not subject to decreases.

Under their respective agreements, Mr. Mills and Mr. Walpuck are eligible to participate in performance-based cash bonus or equity award plans for the Company’s senior executives. In addition, Mr. Mills and Mr. Walpuck will participate in employee benefit plans, policies, programs, perquisites and arrangements to the extent he meets eligibility and other requirements.

Under Mr. Mills’ employment agreement, he is entitled to 17 days of paid time off. In addition, upon any termination of employment Mr. Mills will receive his then-earned base salary through the date of termination, payment for the amount of any accrued and unpaid paid time off, and, if such termination was effected by the Company without “cause,” or if it was effected by Mr. Mills for “good reason,” or if such termination is effected by the Company within 12 months of a “change of control” that occurred during Mr. Mills’ tenure with the Company, as such terms are defined in his employment agreement, then (other than in cases involving Mr. Mills’ death or disability) Mr. Mills will be entitled to receive severance payments aggregating to an amount equal to six months of his then-current base salary. Mr. Mills would also be entitled to customary benefits regarding health insurance (COBRA) for a one-year period following any such termination.

Under Mr. Walpuck’s employment agreement, he is entitled to 17 days of paid time off. In addition, upon any termination of employment Mr. Walpuck will receive his then-earned base salary through the date of termination, payment for the amount of any accrued and unpaid paid time off, and, if such termination was effected by the Company without “cause,” or if it was effected by Mr. Walpuck for “good reason,” or if such termination is effected by the Company within 12 months of a “change of control” that occurred during Mr. Walpuck’s tenure with the Company, as such terms are defined in his employment agreement, then (other than in cases involving Mr. Walpuck’s death or disability) Mr. Walpuck will be entitled to receive severance payments aggregating to an amount equal to six months of his then-current base salary. Mr. Walpuck would also be entitled to customary benefits regarding health insurance (COBRA) for a one-year period following any such termination.

Upon the termination of a named executive officer or change in control of the company, a named executive officer may be entitled to payments or the provision of other benefits, depending on the triggering event. The potential payments for each named executive officer who is currently employed with our company were determined as part of the negotiation of each of their employment agreements, and the board believes that the potential payments for the triggering events are in line with current compensation trends.

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, 2017:

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 (\$)
John Walpuck	270,000(a)	-	\$ 0.65	5/29/2024	-	-
	50,000(a)	-	\$ 0.45	8/18/2024		
	360,514(b)	120,171(b)	\$ 0.45	10/9/2024		
	1,087,075(c)	362,358(c)	\$ 0.32	1/22/2025		
	534,941(d)	534,941(d)	\$ 0.19	11/20/2025		

- (a) Represents shares issuable upon the exercise of stock options granted under our Amended and Restated 2006 Equity Incentive Plan. These stock options became fully exercisable upon the effectiveness of the Company’s merger transaction with Creative Realities, LLC.
- (b) This stock option became exercisable to the extent of 25 percent of the shares purchasable thereunder on October 9, 2015, with additional increments of 25 percent becoming exercisable annually thereafter.
- (c) This stock option became exercisable to the extent of 25 percent of the shares purchasable thereunder on January 22, 2016, with additional increments of 25 percent becoming exercisable annually thereafter.
- (d) This stock option becomes exercisable to the extent of 25 percent of the shares purchasable thereunder on November 20, 2016, with additional increments of 25 percent becoming exercisable annually thereafter.

Director Compensation Table

Non-employee directors received no compensation during 2017 and 2016.

TRANSACTIONS WITH RELATED PERSONS

Since January 1, 2017, we have engaged in the following transactions in which the amount involved exceeded \$120,000 and one or more of our directors or executive officers, or beneficial holders of more than 5% of any class of our voting securities, or any immediate family member of the foregoing persons, had a material interest. We believe that all of these transactions were on terms comparable to terms that could have been obtained from unrelated third parties.

33 Degrees Convenience Connect

For the years-ended December 31, 2017 and 2016, the Company had sales of \$3,390 and \$1,344, respectively, to 33 Degrees Convenience Connect, Inc. (“33 Degrees”), a Kentucky corporation, an entity in which our CEO, Richard Mills, holds an ownership interest of approximately 17.5%. Sales to 33 Degrees were \$417 for the quarter ended March 31, 2018 and \$108 during the quarter ended March 31, 2017. Accounts receivable due from the related party was \$2,503 and \$642 at March 31, 2018 and March 31, 2017, respectively. Accounts receivable due from the 33 Degrees was \$3,017 and \$543 at December 31, 2017 and 2016, respectively.

Financing with Slipstream Communications

On August 10, 2017, we entered into an agreement with Slipstream Communications, LLC, a related party by virtue of their beneficial ownership of approximately 60% of our common stock, to extend to August 17, 2018 the maturity date of an 8% senior note that we had earlier issued in August 2016. In exchange for the extension of the maturity date, we issued Slipstream Communications a five-year warrant to purchase up to 5,882,352 shares of our common stock at a per-share price of \$0.28 (subject to adjustment). For financial reporting purposes, the fair value of the warrant was \$1,240, which was accounted for as an additional debt discount and amortized over the remaining life of the loan.

On November 13, 2017, we entered into an agreement with Slipstream Communications, LLC, a related party by virtue of their beneficial ownership of approximately 60% of our common stock, to extend to August 17, 2019, the maturity date for a term loan we had earlier obtained in August 2016. In exchange for the extension of the maturity date, we issued Slipstream Communications another five-year warrant to purchase up to 5,882,352 shares of our common stock at a per-share price of \$0.28 (subject to adjustment). For financial reporting purposes, the fair value of the warrant was \$976, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream Communications, LLC and obtained a \$1.0 million revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with this amendment, we issued Slipstream Communications a five-year warrant to purchase up to 1,851,851 shares of our common stock at a per-share price of \$0.27 (subject to adjustment). The fair value of the warrants was \$266, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

On April 27, 2018, we entered into the Fourth Amendment to the Loan and Security Agreement with Slipstream Communications, LLC and obtained a \$1.1 million revolving loan, with interest thereon at 8% per annum, provided however at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan (excluding the additional principal added pursuant to this proviso) exceeds \$4,000,000 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 principal of the Term Loan (“PIK”); however, that the Loan Rate with respect to the Disbursed Escrow Loan shall be 0%. The revolving loan matures on January 16, 2019. In connection with the loan, we issued the lender a five-year warrant to purchase up to 4,313,725 shares of Creative Realities’ common stock at a per share price of \$0.255 (subject to adjustment). The fair value of the warrants was \$543, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

On April 27, 2018, we entered into the Fourth Amendment to the Loan and Security Agreement with Slipstream Communications, LLC, which included entry into a Secured Disbursed Escrow Promissory Note between the Company and Slipstream Communications, LLC, 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 will bear simple interest at the 8%; provided, further, however, that the Loan Rate with respect to the Secured Disbursed Escrow Promissory Note shall be 0% at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan (excluding the additional principal added pursuant to this proviso) exceeds \$4,000,000.

Issuance of Holdback Shares

On October 15, 2015, we completed the acquisition of ConeXus World Global, LLC (“ConeXus”) pursuant to an Agreement and Plan of Merger and Reorganization for 2,080,000 shares of Series A-1 Convertible Preferred Stock, and the conversion of \$823 of ConeXus debt into (i) 2,639,258 shares of our common stock, and (ii) \$150 in principal amount of our convertible debt. As a result of the merger transaction, ConeXus World Global, LLC is our wholly owned operating subsidiary. The merger was completed by the filing of articles of merger with the Kentucky Secretary of State. The debtholders and members of ConeXus received a total of 1,664,000 shares of Series A-1 Convertible Preferred Stock, par value \$1.00, and 16,000,000 shares of our common stock, par value \$0.01.

On September 1, 2017, we reached agreement with the prior shareholders of ConeXus World Global, LLC (a business we acquired in a merger transaction in October 2015) to issue 5,631,373 shares of our common stock in the merger that initially had been held back pursuant to the merger agreement. Of these issued shares, 3,198,054 shares were issued to our CEO, Richard Mills, who had been the majority shareholder of ConeXus prior to our acquisition of that company in the merger.

Policies and Procedures for Related Person Transactions

Our board of directors has adopted written policies and procedures, effective as of [●], for the review of any transaction, arrangement or relationship in which our company is a participant, the amount involved exceeds \$120,000 and one of our executive officers, directors, director nominees or 5% stockholders, or their immediate family members, each of whom we refer to as a “related person,” has a direct or indirect material interest.

If a related person proposes to enter into such a transaction, arrangement or relationship, which we refer to as a “related person transaction,” the related person must report the proposed related person transaction to our principal financial officer. The policy calls for the proposed related person transaction to be reviewed and approved by our audit committee. Whenever practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the committee will review, and, in its discretion, may ratify the related person transaction. The policy also permits the chairman of the audit committee to review and, if deemed appropriate, approve proposed related person transactions that arise between committee meetings, subject to ratification by the committee at its next meeting. Any related person transactions that are ongoing in nature will be reviewed annually.

A related person transaction reviewed under the policy will be considered approved or ratified if it is authorized by the audit committee after full disclosure of the related person’s interest in the transaction. As appropriate for the circumstances, the committee will review and consider:

- the related person’s interest in the related person transaction;
- the approximate dollar value of the amount involved in the related person transaction;
- the approximate dollar value of the amount of the related person’s interest in the transaction without regard to the amount of any profit or loss;
- whether the transaction was undertaken in the ordinary course of our business;
- whether the terms of the transaction are no less favorable to us than terms that could have been reached with an unrelated third party;
- the purpose of, and the potential benefits to us of, the transaction; and
- any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The audit committee may approve or ratify the transaction only if the committee determines that, after consideration of all of the facts and circumstances, the transaction is in our best interests. In connection with an approval, the committee may impose any conditions on the related person transaction that it deems appropriate.

The policy provides that transactions involving compensation of executive officers shall be reviewed and approved by the compensation committee in the manner specified in its charter.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the close of business on August 2, 2018, we had outstanding two classes of voting securities – common stock, of which there were 83,870,344 shares issued and outstanding and Series A Convertible Preferred Stock, of which there were 5,535,192 shares issued and outstanding. Each share of common stock is currently entitled to one vote on all matters put to a vote of our shareholders, and each share of preferred stock votes on an as-converted basis, which means that each preferred share is currently entitled to approximately 3.92 votes on all matters put to a vote of our shareholders. Our preferred stock votes together with our common stock as a single class. The following table sets forth the number of common shares, and percentage of outstanding common shares, beneficially owned as of August 2, 2018, 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 prospectus, 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. 99 River Road Cos Cob, CT 06807	31,139,361	36.02%
Slipstream Communications, LLC ^[3] c/o Pegasus Capital Advisors, L.P. 99 River Road Cos Cob, CT 06807	80,714,017	59.93%
Horton Capital Partners Fund, L.P. ^[4]	9,651,061	10.90%
Eric Bertrand ^[5]	911,857	1.08%
John Walpuck ^[6]	2,302,529	2.67%
Donald A. Harris ^[7]	2,698,709	3.19%
Alec Machiels ^[8]	0	*
David Bell ^[9]	0	*
Richard Mills ^[10]	17,974,915	21.36%
Patrick O'Brien ^[11]	0	*
Will Logan ^[12]	182,014	*
Ronald L Chez ^[13]	5,326,733	5.99%
All current executive officers and directors as a group ^[14]	24,070,025	27.36%

* 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%.

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- (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. The share figure includes 1,779,015 shares of common stock issuable upon exercise of an outstanding warrant issued to the shareholder in connection with the Company's merger transaction with Creative Realities, 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 28,570,934 shares of common stock, 789,412 common shares issuable upon conversion of Series A Convertible Preferred Stock and 1,779,015 common shares issuable upon exercise of an outstanding warrant, issued to and held by Slipstream Funding, LLC in connection with the merger transaction with Creative Realities, LLC. Share figure also includes 15,824,514 common shares issued on account of a convertible promissory note, 3,111,761 common shares issuable upon conversion of Series A Convertible Preferred Stock and 31,871,825 common shares purchasable upon exercise of outstanding warrants.
- (4) Investment and voting power over shares held by Horton Capital Partners Fund, L.P. ("HCPF") may be deemed to be directly or indirectly controlled by Joseph M. Manko, Jr. The principal business of HCPF and Horton Capital Partners LLC ("HCP") is purchasing, holding and selling securities for investment purposes. The principal business of Horton Capital Management, LLC ("HCM") is serving as the investment manager of HCPF. HCP is the general partner of HCPF. The principal occupation of Mr. Manko is serving as the managing member of HCM and HCP. The share figure includes 3,483,518 common shares issuable upon conversion of Series A Convertible Preferred Stock and 1,205,358 common shares purchasable upon exercise of outstanding warrants. The warrants to purchase shares held by Horton Capital Partners Fund, LP contain "blocker" provisions that limits its ability to exercise such warrants to the extent that such exercise would cause the shareholder's beneficial ownership in the Company to exceed 4.99% of the Company's shares outstanding. The calculation of beneficial ownership does not take into account the effect of such "blocker" provisions.
- (5) Mr. Bertrand is a director of the Company. Share figure includes 892,857 common shares purchasable upon exercise of outstanding warrants. The warrants to purchase shares held by Mr. Bertrand contain "blocker" provisions that limits its ability to exercise such warrants to the extent that such exercise would cause the shareholder's beneficial ownership in the Company to exceed 4.99% of the Company's shares outstanding.
- (6) Mr. Walpuck is the Chief Operating Officer of the Company. Shares reflected in the table are common shares issuable upon exercise of vested options.
- (7) Mr. Harris is a director of the Company. Share figure includes 225,549 common shares issuable upon conversion of Series A Convertible Preferred Stock and 419,643 shares purchasable upon the exercise of outstanding warrants. The warrants to purchase shares held by Mr. Harris contain "blocker" provisions that limits its ability to exercise such warrants to the extent that such exercise would cause the shareholder's beneficial ownership in the Company to exceed 4.99% of the Company's shares outstanding.
- (8) Mr. Machiels is a director of the Company.
- (9) Mr. Bell is a director of the Company.
- (10) Mr. Mills is a director of the Company and Chief Executive Officer. Includes 2,639,258 common shares and 267,857 common shares purchasable upon exercise of outstanding warrants, each held by RFK Communications, LLC. The warrants to purchase shares held by RFK Communications, LLC contain "blocker" provisions that limits its ability to exercise such warrants to the extent that such exercise would cause the shareholder's beneficial ownership in the Company to exceed 4.99% of the Company's shares outstanding. The calculation of beneficial ownership does not take into account the effect of such "blocker" provisions.
- (11) Mr. O'Brien is a director of the Company.
- (12) Mr. Logan is the Chief Financial Officer of the Company.
- (13) Includes 3,815,573 common shares issuable upon conversion of Series A Convertible Preferred Stock and 1,250,000 common shares purchasable upon exercise of outstanding warrants. The warrants to purchase shares held by Ronald Chez contain "blocker" provisions that limits its ability to exercise such warrants to the extent that such exercise would cause the shareholder's beneficial ownership in the Company to exceed 4.99% of the Company's shares outstanding. The calculation of beneficial ownership does not take into account the effect of such "blocker" provisions.
- (14) Includes Messrs. Walpuck, Harris, Machiels, Bell, Mills, O'Brien, Bertrand and Logan.

MARKET INFORMATION

Upon the consummation of this offering, we expect to have our common stock listed on the NASDAQ Capital Market under the trading symbol “[●].” Our common stock is 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. The following table sets forth the high and low bid prices for our common stock as reported by the OTC Markets in 2017 and 2016 and for the year-to-date period of 2018 through the date of this filing. These quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. Trading in the Company’s common stock during the period represented was sporadic, exemplified by low trading volume and many days during which no trades occurred.

	<u>High</u>	<u>Low</u>
2018		
First Quarter	\$ 0.29	\$ 0.20
Second Quarter	\$ 0.26	\$ 0.18
	<u>High</u>	<u>Low</u>
2017		
First Quarter	\$ 0.28	\$ 0.18
Second Quarter	\$ 0.37	\$ 0.23
Third Quarter	\$ 0.39	\$ 0.28
Fourth Quarter	\$ 0.34	\$ 0.17
	<u>High</u>	<u>Low</u>
2016		
First Quarter	\$ 0.23	\$ 0.13
Second Quarter	\$ 0.22	\$ 0.12
Third Quarter	\$ 0.20	\$ 0.11
Fourth Quarter	\$ 0.24	\$ 0.14

Shareholders

As of August 2, 2018, there were approximately 498 holders of record of our common stock.

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, subject to our obligation to pay dividends to our preferred stockholders as described below. 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. In addition, we must first pay dividends on our Series A Convertible Preferred Stock, which have priority over any dividends to be paid to holders of our common stock. The current dividend payable to the holders of Series A Convertible Preferred Stock has been satisfied through the issuance of preferred and common stock. The current dividend for the Series A Convertible Preferred Stock aggregates to up to approximately \$175 on a semi-annual basis (which we may be able to satisfy our dividend-payment obligations relating to the Series A Convertible Preferred Stock through the issuance of additional shares of preferred stock through August 20, 2017 and thereafter the issuance of additional shares of common stock). Other than with respect to shares of Series A Convertible Preferred Stock, 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.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth certain information, as of the close of business on August 2, 2018, 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	7,665,500	\$ 0.29	90,355

(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.

DESCRIPTION OF EQUITY SECURITIES

The following is a description of the common stock we are registering, and certain material provisions of Minnesota law, our Articles of Incorporation, and our corporate bylaws. The following is only a summary and is qualified by applicable law, our Articles of Incorporation, and our corporate bylaws. Copies of our Articles of Incorporation and corporate bylaws are included as exhibits to the registration statements of which this prospectus is a part and are available as set forth under “Where You Can Find More Information.”

General

As of the date of this prospectus, there were 83,093,418 shares of our common stock issued and outstanding, held of record by approximately xxx holders. Our authorized capital consists of 250,000,000 shares of capital stock, \$0.01 par value per share, of which 200,000,000 shares are available for issuance as common stock, and 50,000,000 shares are available for issuance as preferred stock. Of the authorized preferred shares, we presently have designated 7,000,000 shares for issuance as our “Series A Convertible Preferred Stock” and another 7,000,000 shares for issuance as our “Series A-1 Convertible Preferred Stock.” As of the date of this prospectus, there were 5,535,192 shares of our Series A Convertible Preferred Stock outstanding, and no shares of our Series A-1 Convertible Preferred Stock outstanding.

Common Stock

Voting. The holders of our common stock are entitled to one vote for each outstanding share of common stock owned by that shareholder on every matter properly submitted to the shareholders for their vote. The holders of our Series A Convertible Preferred Stock are entitled to vote together with the holders of our common stock on an as-converted basis. Presently, each share of outstanding Series A Convertible Preferred Stock is convertible into approximately 3.92 shares of our common stock. Shareholders are not entitled to vote cumulatively for the election of directors. Nevertheless, the holders of a majority of our Series A Convertible Preferred Stock are entitled to designate one person for appointment to our Board of Directors. This right of designation is contained in the Securities Purchase Agreement we entered into with the purchasers of Series A Convertible Preferred Stock effective August 18, 2014. As of the date of this prospectus, the holders of preferred stock have not exercised their right to designate a person for appointment to our board.

Dividend Rights. Subject to the dividend rights of the holders of any outstanding series of preferred stock, holders of our common stock are entitled to receive ratably such dividends and other distributions of cash or any other right or property as may be declared by our Board of Directors out of our assets or funds legally available for such dividends or distributions. Nevertheless, we must first pay dividends on our Series A Convertible Preferred Stock. The current dividend payable to the holders of Series A Convertible Preferred Stock aggregates to up to \$166,056 on a semi-annual basis (although under certain circumstances we may be able to satisfy our dividend-payment obligations relating to the Series A Convertible Preferred Stock through the issuance of additional shares of common stock).

Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, holders of our common stock would be entitled to share ratably in our assets that are legally available for distribution to shareholders after payment of liabilities and after the satisfaction of the liquidation preference owed to the holders of our Series A Convertible Preferred Stock. Specifically, the aggregate liquidation preference to which the holders of Series A Convertible Preferred Stock are presently entitled is equal to the sum of (i) the \$5,535,192 stated value of their shares plus (ii) any accrued but unpaid dividends thereon. If we have any other preferred stock outstanding at such time, holders of that preferred stock may be entitled to distribution or liquidation preferences. In either such case, we must pay the applicable distribution to the holders of our preferred stock before we may pay distributions to the holders of our common stock.

Conversion, Redemption and Preemptive Rights. Holders of our common stock have no conversion, redemption, preemptive, subscription or similar rights.

Anti-Takeover Provisions

The following is a description of certain provisions of the Minnesota Business Corporation Act and our corporate bylaws that are likely to discourage any unfriendly attempt to obtain control of the Company. This summary does not purport to be complete and is qualified in its entirety by reference to the Minnesota Business Corporation Act and our corporate bylaws.

Minnesota Business Combination Act

We are subject to the Minnesota Business Combination Act, Section 302A.673 of the Minnesota Business Corporation Act. Subject to certain qualifications and exceptions, the statute prohibits an “interested shareholder” of certain Minnesota corporations that are termed “issuing public corporations” (which definition Creative Realities satisfies) from effecting any “business combination” with the corporation for a period of four years from the date the shareholder becomes an “interested shareholder” unless the corporation’s Board of Directors approved the business combination prior to the shareholder becoming an “interested shareholder” or otherwise approved the shareholder becoming an “interested shareholder.”

An “interested shareholder” is defined to include (i) any beneficial owner of 10% or more of the voting power of the outstanding voting stock of the corporation, or (ii) any affiliate or associate of the corporation, that, within the prior four-year period has at any time directly or indirectly beneficially owned 10% or more of the voting power of the then-outstanding stock of the corporation.

The term “business combination” is defined broadly to include, among other things:

- the merger, consolidation or share exchange of the corporation with the interested shareholder or any corporation that is, or after the merger, consolidation or share exchange would be, an affiliate or associate of the interested shareholder (subject to certain exceptions);
- the sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with an interested shareholder or any affiliate or associate of the interested shareholder, of assets of the corporation or any subsidiary (i) having an aggregate market value of 10% or more of the corporation’s consolidated assets, (ii) having an aggregate market value of 10% or more of the market value of all outstanding shares of the corporation, or (iii) representing 10% or more of the earning power or net income of the corporation determined on a consolidated basis (subject to certain exceptions); or
- the issuance or transfer to an interested shareholder or any affiliate or associate of the interested shareholder of 5% or more of the aggregate market value of the outstanding stock of the corporation (subject to certain exceptions).

The statute is designed to protect minority shareholders by prohibiting transactions in which an acquirer could favor itself at the expense of minority shareholders. The statute's prohibition on the issuance or transfer to an interested shareholder of 5% or more of the aggregate market value of the outstanding stock of a corporation is subject to an exemption for shares purchased pursuant to the exercise of rights offered on a pro rata basis to all shareholders, such as this rights offering.

Bylaws

Certain provisions of our corporate bylaws could have anti-takeover effects. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our corporate policies formulated by our Board of Directors. In addition, these provisions also are intended to ensure that our Board of Directors will have sufficient time to act in what our Board of Directors believes to be in the best interests of our Company and our shareholders. Nevertheless, these provisions could delay or frustrate the removal of incumbent directors or the assumption of control of us by the holder of a large block of common stock, and could also discourage or make more difficult a merger, tender offer, or proxy contest, even if such event would be favorable to the interest of our shareholders. These provisions are summarized below.

Advance Notice Provisions for Raising Business or Nominating Directors. Sections 2.2 and 3.3 of our bylaws contain advance-notice provisions relating to the ability of shareholders to raise business at a shareholder meeting and make nominations for directors to serve on our Board of Directors. These advance-notice provisions generally require shareholders to raise business within a specified period of time prior to a meeting in order for the business to be properly brought before the meeting. Similarly, our bylaws prescribe the timing of submissions for nominations to our Board of Directors and the certain of factual and background information respecting the nominee and the shareholder making the nomination.

Limited Shareholder Action in Writing. Our bylaws provide that shareholder action can be taken only at an annual or special meeting of shareholders and cannot be taken by written consent in lieu of a meeting by fewer than all shareholders entitled to vote. This provision is consistent with the Minnesota Business Corporation Act, which does not allow for fewer than all shareholders of a public corporation to take action other than at an actual meeting of the shareholders.

Number of Directors and Vacancies. Our bylaws provide that the number of directors shall initially consist of seven persons, with the precise number of directors comprising the board shall be determined from time to time by the board itself. The prescribed number of directors comprising the board may be increased (but not decreased) by a majority of the directors then serving on the board. The bylaws also provide that our board has the right, except as may be provided in the terms of any series of preferred stock created by resolutions of the board, to fill vacancies, including vacancies created by any decision of our board to increase the number of directors comprising the board.

Articles of Incorporation – Blank-Check Preferred Stock Power

Under our Articles of Incorporation, our board has the authority to fix by resolution the terms and conditions of one or more series of preferred stock and provide by resolution for the issuance of shares of such series.

We believe that the availability of our preferred stock, in each case issuable in series, and additional shares of common stock could facilitate certain financings and acquisitions and provide a means for meeting other corporate needs which might arise. The authorized shares of our preferred stock, as well as authorized but unissued shares of common stock, will be available for issuance without further action by our shareholders, unless shareholder action is required by applicable law or the rules of any stock exchange on which any series of our stock may then be listed, or except as may be provided in the terms of any preferred stock created by resolution of our board.

These provisions give our board the power to approve the issuance of a series of preferred stock, or additional shares of common stock, that could, depending on its terms, either impede or facilitate the completion of a merger, tender offer or other takeover attempt. For example, the issuance of new shares of preferred stock might impede a business combination if the terms of those shares include voting rights which would enable a holder to block business combinations or, alternatively, might facilitate a business combination if those shares have general voting rights sufficient to cause an applicable percentage vote requirement to be satisfied.

Listing

We have reserved the symbol “[●]” for purposes of listing our common stock on The NASDAQ Capital Market and expect to apply to list our common stock on that exchange.

PLAN OF DISTRIBUTION

[●] is acting as the sole book-running manager of this offering and as the representative of the underwriters (the “Representative”) named below. Subject to the terms and conditions set forth in an underwriting agreement dated the date of this prospectus among us and the Representative, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase from us, the number of shares of common stock set forth opposite its name below.

Underwriters	Number of shares
[●]	
Total	

A copy of the underwriting agreement will be filed as an exhibit to the registration statement of which this prospectus is part.

We have been advised by the underwriters that they propose to offer the common stock directly to the public at the assumed public offering price set forth on the cover page of this prospectus. The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer’s certificates and legal opinions. Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

No action has been taken by us or the underwriters that would permit a public offering of the shares in any jurisdiction where action for that purpose is required. None of the shares of common stock included in this offering may be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sales of any of the shares of common stock being offered hereby be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons who receive this prospectus are advised to inform themselves about and to observe any restrictions relating to this offering of securities and the distribution of this prospectus. This prospectus is neither an offer to sell nor a solicitation of any offer to buy the shares in any jurisdiction where that would not be permitted or legal.

The underwriters have advised us that they do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Underwriting Discounts and Commissions

The following table shows the public offering price, underwriting discounts and commissions, and proceeds before expenses to us. The information assumes either no exercise or full exercise of the option we granted to the Representative to purchase additional shares.

	Per share	Total	
		No exercise	Full exercise
Public offering price	\$ [●]	\$ [●]	\$ [●]
Underwriting discounts and commissions	\$ [●]	\$ [●]	\$ [●]
Proceeds, before expenses, to us	\$ [●]	\$ [●]	\$ [●]

We estimate the total expenses payable by us for this offering to be approximately \$[●], which amount includes (i) up to \$[●] for the Representative's out-of-pocket expenses, including but not limited to travel, databases, fees and disbursements of counsel, and of other consultants and advisors retained by the Representative and (ii) other estimated expenses of approximately \$[●] which includes legal, accounting, printing costs and various fees associated with the registration and listing of our shares.

The securities we are offering are being offered by the underwriters subject to certain conditions specified in the underwriting agreement.

Over-allotment Option

We have granted to the Representative an option, exercisable not later than 45 days after the date of this prospectus, to purchase up to a number of additional shares of common stock equal to 15% of the number of shares of common stock sold in the primary offering. Any shares so purchased shall be sold at a price per share equal to the public offering price, less the underwriting discount. The Representative may exercise the option solely to cover over-allotments, if any, made in connection with this offering. If any additional shares of common stock are purchased pursuant to the over-allotment option, the underwriters will offer these shares of common stock on the same terms as those on which the other securities are being offered hereby.

Determination of Offering Price

The public offering price of our common stock offered by this prospectus has been determined by us and the underwriters and may bear no relation to our assets, book value, historical earnings or net worth, or any other accepted valuation criteria. No valuation or appraisal has been obtained in connection with this offering.

The public offering price of our common stock offered by this prospectus will be determined by negotiation between us and the underwriters based on many factors, including the price of our common stock on the OTCQX Marketplace during recent periods, our history, our prospects, the industry in which we operate, our past and present operating results, the previous experience of our executive officers and the general condition of the securities markets at the time of this offering. It should be noted, however, that historically there has been a limited volume of trading in our common stock on the OTCQX Marketplace. Therefore, the price of our common stock on the OTCQX Marketplace during recent periods will only be one of many factors in determining the public offering price.

Accordingly, the assumed public offering price stated on the cover page of this prospectus should not be considered as an indication of the actual value of our common stock, which is subject to change as a result of market conditions and other factors. Neither we nor any of the underwriters can assure investors that, after this offering, an active trading market will develop for our common stock or that our common stock can be resold at or above the assumed public offering price.

Indemnification

We have agreed to indemnify the underwriters against certain liabilities, including certain liabilities arising under the Securities Act, or to contribute to payments that the underwriters may be required to make for these liabilities.

Electronic Distribution

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail.

**DISCLOSURE OF COMMISSION POSITION
ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES**

Our Articles of Incorporation and corporate bylaws contain provisions indemnifying our directors and officers to the fullest extent permitted by Minnesota law. In addition, and as permitted by Minnesota law, our Articles of Incorporation provide that no director will be liable to us or our shareholders for monetary damages for breach of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our shareholders in derivative suits to recover monetary damages against a director for breach of certain fiduciary duties as a director, except that a director will be personally liable for:

- any breach of his or her duty of loyalty to us or our shareholders;
- acts or omissions not in good faith which involve intentional misconduct or a knowing violation of law;
- the payment of an improper dividend or an improper repurchase of our stock in violation of Minnesota law or in violation of federal or state securities laws; or
- any transaction from which the director derived an improper personal benefit.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings, including the registration statement and exhibits, are available to the public at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for information on the operating rules and procedures for the public reference room.

We maintain an Internet site at <http://www.cri.com>. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this prospectus.

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Paul D. Chestovich, Esq. of Minneapolis, Minnesota.

EXPERTS

The consolidated balance sheets of Creative Realities, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years each then ended, have been audited by EisnerAmper LLP, independent registered public accounting firm, as stated in their report which is incorporated herein which report included a change in accounting principle. Such financial statements have been incorporated herein in reliance on the report of such firm given upon their authority as experts in accounting and auditing.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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, 2017 and 2016, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the years 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, 2017 and 2016 and the consolidated results of their operations and their cash flows for each of the years 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 financial statements, the Company has changed its method of accounting for the classification of certain equity-linked financial instruments with down-round features in 2017 due to the adoption of the Financial Accounting Standards Board Accounting Standards Update No. 2017-11.

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 have served as the Company’s auditor since 2015.

EISNERAMPER LLP
Iselin, New Jersey
March 26, 2018

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

	December 31,	December 31,
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,003	\$ 1,352
Accounts receivable, net of allowance for doubtful accounts of \$40 and \$85, respectively	5,912	3,998
Unbilled receivables	77	242
Work-in-process and inventories	851	585
Prepays and other current assets	1,030	168
Total current assets	8,873	6,345
Property and equipment, net	1,136	912
Intangibles, net	875	2,035
Goodwill	14,989	14,989
Other assets	172	138
TOTAL ASSETS	\$ 26,045	\$ 24,419
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term related party loans payable, net of \$0 and \$454 discount, respectively	\$ -	\$ 7,627
Accounts payable	2,017	3,218
Accrued expenses	2,689	2,277
Deferred revenues	6,721	753
Customer deposits	1,247	606
Total current liabilities	12,674	14,481
Long-term related party loans payable, net of \$1,916 and \$0 discount, respectively	5,465	-
Warrant liability	858	705
Deferred tax liabilities	549	610
Other liabilities	220	218
TOTAL LIABILITIES	19,766	16,014
COMMITMENTS AND CONTINGENCIES		
Convertible preferred stock, net of discount (liquidation preference of \$5,692 and \$7,690, respectively)	1,927	3,925
SHAREHOLDERS' EQUITY		
Common stock, \$.01 per value, 200,000 shares authorized; 82,582 and 66,649 shares issued and outstanding, respectively	826	666
Additional paid-in capital	29,757	23,095
Accumulated deficit	(26,231)	(19,281)
Total shareholders' equity	4,352	4,480
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 26,045	\$ 24,419

See accompanying Notes to Consolidated Financial Statements.

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

	For the Years Ended	
	December 31,	
	2017	2016
Sales		
Hardware	\$ 5,412	\$ 3,031
Services and other	12,286	10,642
Total sales	17,698	13,673
Cost of sales		
Hardware	4,434	2,544
Services and other	5,875	4,271
Total cost of sales (exclusive of depreciation and amortization shown separately below)	10,309	6,815
Gross profit	7,389	6,858
Operating expenses:		
Sales and marketing expenses	2,078	1,061
Research and development expenses	991	893
General and administrative expenses	6,944	6,393
Depreciation and amortization expense	1,505	2,003
ConeXus acquisition stock issuance expense	1,971	-
Impairment loss on intangible assets	-	1,065
Total operating expenses	13,489	11,415
Operating loss	(6,100)	(4,557)
Other income (expenses):		
Interest expense	(1,610)	(1,636)
Change in fair value of warrant liability	(153)	(42)
Gain on settlement of debt and dissolution of Broadcast	872	1,008
Other income, net	2	164
Total other expense	(889)	(506)
Net loss before income taxes	(6,989)	(5,063)
Benefit/(provision) from income taxes	39	365
Net loss	(6,950)	(4,698)
Dividends on preferred stock	246	463
Net loss attributable to common shareholders	\$ (7,196)	\$ (5,161)
Net loss per common share - basic and diluted	\$ (0.10)	\$ (0.07)
Net loss attributable to common shareholders	\$ (0.10)	\$ (0.08)
Weighted average shares outstanding - basic and diluted	72,788	65,443

See accompanying Notes to Consolidated Financial Statements.

CREATIVE REALITIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2017 and 2016
(in thousands, except shares)

	Common Stock		Additional paid in capital	(Accumulated Deficit)	Total
	Shares	Amount			
Balance as of December 31, 2015	64,224,860	\$ 642	\$ 22,528	\$ (14,582)	\$ 8,588
Shares issued upon conversion of preferred stock	1,205,882	12	295	-	307
Shares issued for restructured settlement program	1,219,189	12	155	-	167
Dividends on preferred stock	-	-	(463)	-	(463)
Stock-based compensation	-	-	273	-	273
Net loss	-	-	-	(5,910)	(5,910)
Adjustment due to adoption of ASU 2017-11	-	-	307	1,211	1,518
Balance as of December 31, 2016	<u>66,649,931</u>	<u>\$ 666</u>	<u>\$ 23,095</u>	<u>\$ (19,281)</u>	<u>\$ 4,480</u>
Shares issued upon conversion of preferred stock	8,806,906	88	2,158	-	2,246
Additional shares issued for ConeXus purchase	5,631,373	56	1,915	-	1,971
Shares issued for services	1,960,784	20	480	-	500
Issuance of warrants with promissory notes	-	-	2,216	-	2,216
Redemption and cancellation of shares under repurchase plan	(1,185,968)	(11)	(138)	-	(149)
Dividends on preferred stock	-	-	(246)	-	(246)
Common stock issued as dividend	718,840	7	(7)	-	-
Stock-based compensation	-	-	284	-	284
Net loss	-	-	-	(6,950)	(6,950)
Balance as of December 31, 2017	<u>82,581,866</u>	<u>826</u>	<u>29,757</u>	<u>(26,231)</u>	<u>4,352</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,	
	2017	2016
Operating Activities:		
Net loss	(6,950)	(4,698)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,505	2,003
Amortization of debt discount	756	852
Stock-based compensation	284	273
Change in warrant liability	153	42
Allowance for doubtful accounts	-	85
Warrants issued for services	-	36
ConeXus acquisition stock issuance expense	1,971	-
Increase in notes due to in-kind interest	86	102
Deferred tax provision (benefit)	(61)	(365)
Impairment of intangible assets	-	1,065
Gain on debt settlement	(872)	(1,008)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled revenues	(1,749)	(3,360)
Inventories	(266)	(503)
Prepaid expenses and other current assets	(862)	180
Other non-current assets	(34)	65
Accounts payable	(390)	858
Deferred revenue	5,968	(460)
Accrued expenses	473	17
Customer deposits	641	606
Other non-current liabilities	2	104
Net cash provided by (used in) operating activities	<u>655</u>	<u>(4,106)</u>
Investing activities		
Purchases of property and equipment	(569)	(292)
Net cash used in investing activities	<u>(569)</u>	<u>(292)</u>
Financing activities		
Issuance of common stock	500	167
Issuance of loans payable and warrants, net of discount	-	4,510
Share repurchase and cancellation	(149)	-
Payments on debts	(786)	(288)
Net cash (used in) provided by financing activities	<u>(435)</u>	<u>4,389</u>
(Decrease)/increase in Cash and Cash Equivalents	<u>(349)</u>	<u>(9)</u>
Cash and Cash Equivalents, beginning of year	<u>1,352</u>	<u>1,361</u>
Cash and Cash Equivalents, end of year	<u><u>1,003</u></u>	<u><u>1,352</u></u>

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 OPERATIONS AND LIQUIDITY

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. We have 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. We believe we are one of the world's leading interactive marketing technology companies that focuses on the retail shopper experience by helping retailers and brands use the latest technologies to create better shopping experiences.

Our main operations are conducted directly through Creative Realities, Inc., and under our wholly owned subsidiaries Creative Realities, LLC, a Delaware limited liability company, Wireless Ronin Technologies Canada, Inc., and ConeXus World Global, LLC, a Kentucky limited liability company.

Liquidity

We have incurred net losses and negative cash flows from operating activities for the years ended December 31, 2017 and 2016. As of December 31, 2017, we had cash and cash equivalents of \$1,003 and a working capital deficit of \$(3,801). On November 13, 2017, Slipstream Communications, LLC, a related party, extended the maturity date of our term loan to August 17, 2019 and extended the maturity date of our promissory notes on a rolling quarter addition basis which is now April 15, 2019. While management believes that due to the extension of our debt maturity date, our current cash balance and our operational forecast for 2018, we can continue as a going concern through at least March 31, 2019, given our net losses and working capital deficit, we obtained a continued support letter from Slipstream Communications, LLC through March 31, 2019. 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.

The consolidated financial statements do not include any adjustments to the recoverability and classifications of recorded assets and liabilities as a result of the above uncertainty.

Major Acquisitions

Acquisition of ConeXus World Global

There were no acquisitions completed during the years-ended December 31, 2017 and 2016. On October 15, 2015, we completed the acquisition of ConeXus World Global, LLC for 2,080,000 shares of Series A-1 Convertible Preferred Stock, and the conversion of \$823 of ConeXus World Global debt into (i) 2,639,258 shares of our common stock, and (ii) \$150 in principal amount of our convertible debt.

In accordance with the terms of the agreement and plan of merger and reorganization, an additional 416,000 shares of Series A-1 Convertible Preferred Stock and 4,000,000 shares of common stock were to be issued upon the reorganization of the capital structure of a Belgian affiliate of ConeXus (the "Holdback Shares"). Since the passage of the March 31, 2016 date targeted for the completion of the reorganization of the Belgian affiliate, the parties have determined that the value of the Belgian affiliate was de minimis.

An agreement was reached on September 1, 2017 by Creative Realities, Inc. and the prior shareholders of ConeXus to recognize the value obtained by Creative Realities, Inc. as a result of the merger and to settle the Holdback Shares to the prior shareholders of ConeXus. Creative Realities, Inc. has waived the contingency relating to the issuance of the Holdback Shares and issued to the shareholders 5,631,373 shares of common stock. 3,198,054 of these shares were issued to Rick Mills, a majority shareholder of ConeXus, a related party, and the CEO of Creative Realities, Inc. Since the measurement period for the business combination has expired, the issuance of the shares is recognized as a charge to operations during the year ended December 31, 2017 of \$1.9 million.

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. Principles of Consolidation

The consolidated financial statements include the accounts of Creative Realities, Inc., our wholly owned subsidiaries ConeXus World Global LLC, Creative Realities, LLC and Wireless Ronin Technologies Canada, Inc. All inter-company balances and transactions have been eliminated in consolidation, as applicable.

2. Foreign Currency

For the Company's Canadian operations, the local currency has been determined to be the functional currency. The results of its non-U.S. dollar based operations are translated to U.S. dollars at the average exchange rates during the period. Assets and liabilities are translated at the rate of exchange prevailing on the balance sheet date. Equity is translated at the prevailing rate of exchange at the date of the equity transaction. The effects of converting non-functional currency assets and liabilities into the functional currency are recorded as general and administrative expenses in the consolidated statements of operations. Translation adjustments which were considered immaterial to date, have been recorded as general and administrative expenses in the consolidated statements of operations.

3. Revenue Recognition

We recognize revenue primarily from these sources:

- Hardware:

System hardware sales

- Services and Other:

Professional and implementation services
Software design and development services
Software and software license sales
Maintenance and support services

We recognize revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 910, Contractors-Construction, ASC 605, *Revenue Recognition*, ASC 605-25, *Accounting for Revenue Arrangements with Multiple Deliverables* and ASC subtopic 985-605, *Software*. In the event of a multiple-element arrangement, we evaluate each element of the transaction to determine if it represents a separate unit of accounting, taking into account all factors following the guidelines set forth in FASB ASC 985-605-25-5:

- (v) persuasive evidence of an arrangement exists;
- (vi) delivery has occurred, which is when product title transfers to the customer, or services have been rendered;

- (vii) customer payments are fixed or determinable and free of contingencies and significant uncertainties; and
- (viii) collection is reasonably assured. If it is determined that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment. Revenues are reported on a gross basis.

We enter into arrangements with customers that may include a combination of software products, system hardware, maintenance and support, or installation and training services. We allocate the total arrangement fee among the various elements of the arrangement based on the relative fair value of each of the undelivered elements determined by vendor-specific objective evidence (VSOE). In software arrangements for which we do not have VSOE of fair value for all elements, revenue is deferred until the earlier of when VSOE is determined for the undelivered elements (residual method) or when all elements for which we do not have VSOE of fair value have been delivered. We have determined VSOE of fair value for each of our products and services.

The VSOE for maintenance and support services is based upon the renewal rate for continued service arrangements. The VSOE for installation and training services is established based upon pricing for the services. The VSOE for software and licenses is based on the normal pricing and discounting for the product when sold separately.

Each element of our multiple-element arrangements qualifies for separate accounting. Nevertheless, when a sale includes both software and maintenance, we defer revenue under the residual method of accounting. Under this method, the undelivered maintenance and support fees included in the price of software is amortized ratably over the period the services are provided. We defer maintenance and support fees based upon the customer's renewal rate for these services.

System hardware sales

Included in "hardware" are system hardware sales whereby revenue is recognized generally upon shipment of the product or customer acceptance depending upon contractual arrangements with the customer. Shipping charges billed to customers are included in sales and the related shipping costs are included in cost of sales. Total hardware sales were \$5,400 and \$3,031 for the years ended December 31, 2017 and 2016, respectively.

Services and Other

Included in "services and other" revenue is professional and implementation services, software design and development services, software and software license sales and maintenance and support services revenue. Total services and other revenue was \$12,298 and \$10,642 for the years ended December 31, 2017 and 2016, respectively.

Professional and implementation services

Professional services revenue is derived primarily from consulting services related to the design and development of various marketing experiences, and content development and management. The majority of professional services and accompanying agreements qualify for separate accounting.

Implementation services revenue is derived from implementation, maintenance and support contracts, content development, software development and training.

These services are bid either on a fixed-fee basis, time-and-materials basis or both. For time-and-materials contracts, we recognize revenue as services are performed. For fixed-fee contracts, we recognize revenue upon completion of specific contractual milestones, by using the percentage-of-completion method.

Software design and development services

Software design and development services includes revenue from contracts for technology integration consulting services where we design/redesign, build and implement new or enhanced systems applications and related processes for clients recognized on the percentage-of-completion method. The percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. Estimated revenues from applying the percentage-of-completion method include estimated incentives for which achievement of defined goals is deemed probable. Contract costs include all direct material, labor, subcontractors, certain indirect costs, such as indirect labor, equipment costs, supplies, tools and depreciation costs. Selling, general and administrative costs are charged to expense as incurred. This method is followed where reasonably dependable estimates of revenues and costs can be made. We measure progress for completion based on either the hours worked as a percentage of the total number of hours of the project or by delivery and customer acceptance of specific milestones as outlined per the terms of the agreement with the customer. Estimates of total contract revenue and costs are continuously monitored during the term of the contract, and recorded revenue and costs are subject to revision as the contract progresses. Such revisions may result in increases or decreases to revenue and income and are reflected in the financial statements in the periods in which they are first identified. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenue that will be generated by the contract and are included in cost of sales and classified in accrued expenses in the balance sheet. Our presentation of revenue recognized on a contract completion basis has been consistently applied for all periods presented.

Software and software license sales

Software and software license sales are revenue when a fixed fee order has been received and delivery has occurred to the customer. We assess whether the fee is fixed or determinable and free of contingencies based upon signed agreements received from the customer confirming terms of the transaction. Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically.

Maintenance and support services

Maintenance and support services revenue consists of software updates and various forms of support services. Software updates provide customers with rights to unspecified software product upgrades and maintenance releases and patches released during the term of the support period. Support includes access to technical support personnel for software and hardware issues. We also offer 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. This revenue is recognized ratably over the term of the contract, which is typically one to three years. Maintenance and support is 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. Support agreement fees are based on the level of service provided to its 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.

Costs and estimated earnings recognized in excess of billings on uncompleted contracts are recorded as unbilled services and are included in work-in-process on the balance sheet. Billings in excess of costs and estimated earnings on uncompleted contracts are recorded as deferred revenues until revenue recognition criteria are met. Unbilled receivables are a normal part of our business as some receivables are invoiced in the month following shipment or completion of services. Our policy is to present any taxes imposed on revenue-producing transactions on a net basis.

4. Cash and Cash Equivalents

Cash equivalents consist of liquid investments with original maturities of three months or less when purchased. As of December 31, 2017, the Company had substantially all cash deposited with commercial banks. The balances are insured by the Federal Deposit Insurance Corporation up to \$250.

5. Accounts Receivable and Allowance for Doubtful Accounts

Our unsecured accounts receivable are customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts. Approximately 51% or \$3,017 of our accounts receivable at December 31, 2017 is from a related party (see Note 8). We entered into a factoring arrangement with Allied Affiliated Funding for our accounts receivable with recourse on October 15, 2015 which concluded on August 17, 2016. During that period, the majority of our receivables were factored. We determine our allowance for doubtful accounts based on the evaluation of the aging of our accounts receivable and on a customer-by-customer analysis of our high-risk customers. Our reserves contemplate our historical loss rate on receivables, specific customer situations and the economic environments in which we operate. We determine past-due accounts receivable on a customer-by-customer basis. Accounts receivable are written off after all reasonable collection efforts have failed.

6. Work-In-Process and Inventories

Our work-in-process and inventories are recorded using the lower of cost or market on a first-in, first-out (FIFO) method. Inventory is net of an allowance for obsolescence of \$10 and \$10 as of December 31, 2017 and 2016, respectively.

7. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, requires disclosure of the estimated fair value of an entity's financial instruments. Such disclosures, which pertain to our financial instruments, do not purport to represent our aggregate net fair value. The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of those instruments. The fair value of the warrant liabilities is calculated using a Black-Scholes model, which approximates a binomial model due to probability factors used to determine the fair value. The calculation of this liability is based on Level 3 inputs. See Notes 3 and 11 for further discussion on the valuation of warrant liabilities.

8. Impairment of Long-Lived Assets

We review the carrying value of all long-lived assets, including property and equipment, for impairment in accordance with FASB ASC 360-10-05-4, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under FASB ASC 360-10-05-4, 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 by 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. There were no impairment losses for long-lived assets recorded for the years ended December 31, 2017 and 2016.

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 consists of the following at December 31, 2017 and 2016:

	December 31,	
	2017	2016
Equipment	\$ 1,700	\$ 1,644
Leasehold improvements	680	673
Purchased and developed software	1,516	1,007
Furniture and fixtures	439	438
Other depreciable assets	27	27
Total property and equipment	4,362	3,789
Less: accumulated depreciation and amortization	(3,226)	(2,877)
Net property and equipment	<u>\$ 1,136</u>	<u>\$ 912</u>

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

Equipment	3 – 5 years
Furniture and fixtures	5 years
Purchased and developed software	5 years
Leasehold improvements	Shorter of 5 years or term of lease

Depreciation expense was \$345 and \$272 for the years ended December 31, 2017 and 2016, respectively.

10. 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. Effective April 2015, the Company began capitalizing its costs for additional functionality to its internal software. We capitalized approximately \$524 and \$270 for the years ended December 31, 2017 and 2016, 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 5 years once the new projects are finished and placed in service. These costs are included in property and equipment, net on the consolidated balance sheets.

11. Basic and Diluted Loss per Common Share

Basic and diluted loss per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding include only outstanding common shares. Diluted net loss per common share is computed by dividing net loss by the weighted average common and potential dilutive common shares outstanding computed in accordance with the treasury stock method. Shares reserved for outstanding stock options and warrants totaling approximately 46.7 and 36.0 million at December 31, 2017 and 2016, respectively, were excluded from the computation of loss per share as well as the potential common shares issuable upon conversion of convertible preferred stock and convertible promissory notes as their effect was antidilutive due to our net loss. Net loss attributable to common shareholders for the year ended December 31, 2017 and December 31, 2016 is after dividends on convertible preferred stock of \$246 and \$463, respectively.

12. Deferred Income Taxes

The calculation of our income tax provision involves dealing with uncertainties in the application of complex tax regulations. We recognize tax liabilities for uncertain income tax positions based on management's estimate of whether it is more likely than not that additional taxes will be required. We had no uncertain tax positions as of December 31, 2017 and 2016. 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 (other than goodwill), 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. In the event of any future tax assessments, we have elected to record the income taxes and any related interest and penalties as income tax expense on our statement of operations.

13. Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718-10 that requires the 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 value. For purposes of determining estimated fair value under FASB ASC 718-10-30, the Company computes the estimated fair values of stock options using the Black-Scholes option pricing model. Stock-based compensation expense to employees of \$284 and \$273 was charged to expense during the years ended December 31, 2017 and 2016, respectively.

14. Goodwill and Definite-Lived Intangible Assets

We follow the provisions of FASB ASC 350, *Goodwill and Other Intangible Assets*. Pursuant to FASB ASC 350, goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually. The Company used a measurement date of September 30 (see Note 5). There was no impairment loss recognized during the year ended December 31, 2017. An impairment loss was recognized during the year ended December 31, 2016.

15. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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, recognition of revenue under fixed price contracts, deferred tax assets, deferred revenue, depreciable lives and methods for property and equipment and definite lived intangible assets, valuation of warrants and other stock-based compensation, as well as valuations and purchase price allocations related to business combinations, expected future cash flows including growth rates, discount rates and terminal values 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.

16. Change in authorized shares

On February 11, 2016, the Company filed an S-1 Registration Statement registering 20,268,959 shares of common stock issuable upon conversion of its secured notes and upon exercise of the warrants. This S-1 was effective June 1, 2016.

17. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue From Contracts With Customers (Topic 606)*, that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This ASU is based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

The Company adopted the new revenue guidance effective January 1, 2018 using the modified retrospective method of adoption. Based on the Company’s initial assessment any adjustments for transition are not expected to be material. The Company conducted a risk assessment and had developed a transition plan that enabled the Company to meet the implementation requirement. Revenue streams and performance obligations evaluated include those outlined in the *Revenue* section of Note 1 above. The Company’s contracts rarely include forms of variable consideration. Based on the evaluation of the Company’s current contracts and the related revenue streams and performance obligations, the allocation of revenue between hardware, services and other will have insignificant changes as compared with current GAAP. However, for certain sales transactions, the timing of revenue recognition for hardware and certain services sales may occur earlier, with the remaining service and other sales, occurring later than under current GAAP. The largest impacts as a result of the new standard are the new required qualitative and quantitative disclosures.

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In July 2017, the FASB issued Accounting Standards Update No. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities From Equity (Topic 480), Derivatives and Hedging (Topic 815) Part I. Accounting for Certain Financial Instruments With Down Round Features, Part II Replacement of the Indefinite Deferral for Mandatorily Redeemable Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. This update provides guidance that changes the classification analysis of certain equity-linked financial instruments with down-round features. These instruments are no longer accounted for as derivative liabilities at fair value as a result of the existence of a down round feature. The Company early adopted this ASU in 2017 and has applied the guidance in this ASU retrospectively to all prior periods. As a result of adopting this ASU, the Company no longer recognizes a liability related to 16,482,635 warrants, which were only classified as liabilities as a result of having down round features. The debt discount for those warrants has been recalculated to reflect the relative fair value of the warrants and the debt. In addition, the Company determined that the impact to the income/(loss) per share as a result of the down round features was not material. The impact to the financial statements for the year ended December 31, 2016 and the balance sheet as of December 31, 2016 is as follows:

	Year ended	
	December 31,	
	2016	
	As previously reported	As adjusted
Operating income/(loss)	(4,557)	(4,557)
Other income (expenses):		
Interest expense	(1,908)	(1,636)
Change in fair value of warrant liability	(982)	(42)
Gain on settlement of debt	1,008	1,008
Other income/(expense)	164	164
Total other income/(expense)	(1,718)	(506)
Income/(loss) before income taxes	(6,275)	(5,063)
Benefit/(provision) from income taxes	365	365
Net loss	(5,910)	(4,698)
Dividends on preferred stock	463	463
Net loss attributable to common shareholders	(6,373)	(5,161)
Net loss per common share - basic and diluted	(0.09)	(0.07)
Net loss attributable to common shareholders	(0.10)	(0.08)
Weighted average shares outstanding - basic and diluted	65,443	65,443

	December 31, 2016	
	As previously reported	As adjusted
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loans payable, net	\$ 7,635	\$ 7,627
Total current liabilities	14,374	14,481
Warrant liability	3,316	705
TOTAL LIABILITIES	18,518	16,014
SHAREHOLDERS' EQUITY		
Additional paid-in capital	21,834	23,095
Accumulated deficit	(20,524)	(19,281)
Total shareholders' equity	1,976	4,480
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 24,419	\$ 24,419

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This update eliminates the requirement that an entity perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. To address concerns over the cost and complexity of the two-step goodwill impairment test, the amendments in this ASU remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, early adoption is permitted.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, including those related to debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance, and distributions received from equity method investees. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The guidance must be adopted on a retrospective basis and must be applied to all periods presented, but may be applied prospectively if retrospective application would be impracticable. The Company does not expect the adoption of this ASU to have a material impact on our consolidated financial statements, including our consolidated statement of cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides guidance with respect to measuring credit losses on financial instruments, including trade receivables. This guidance eliminates the probable initial recognition threshold that was previously required prior to recognizing a credit loss on financial instruments. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses. Under the previous guidance, an entity only considered past events and current conditions. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, that requires lessees to recognize most leases on the balance sheet and provides for expanded disclosures on key information about leasing arrangements. This ASU is effective for interim and annual periods beginning after December 15, 2018, which means it will become effective for the Company on January 1, 2019 although early adoption is permitted. In transition, the Company is required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating this ASU to determine the impact it will have on the Company's Consolidated Financial Statements. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

18. Reclassification:

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3: FAIR VALUE MEASUREMENT

We measure certain financial assets, including cash equivalents, at fair value on a recurring basis. In accordance with FASB 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, FASB 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 following table presents information about the Company’s warrant liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques the Company used to determine such fair value. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs use data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability:

Description	Fair Value	Quote Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Warrant liability at December 31, 2016	\$ 3,316	-	-	\$ 3,316
Reclassification of warrants from liabilities to equity per ASU 2017-11	\$ (2,611)	-	-	\$ (2,611)
Revised warrant liability at December 31, 2016	\$ 705	-	-	\$ 705
Warrant liability at December 31, 2017	<u>\$ 858</u>	-	-	<u>\$ 858</u>

The change in level 3 fair value is as follows:

Warrant liability December 31, 2016	\$ 705
New warrant liabilities	-
Increase in fair value of warrant liability	153
Ending warrant liability as of December 31, 2017	<u>\$ 858</u>

NOTE 4: OTHER FINANCIAL STATEMENT INFORMATION

The following table provides details of selected financial statement items:

Inventories

	December 31, 2017	December 31, 2016
Finished goods	\$ 719	\$ 138
Work-in-process	132	447
Total inventories	\$ 851	\$ 585

Supplemental Cash Flow Information:

	2017	2016
Cash paid for interest	\$ 640	\$ 363
Cash paid for taxes	\$ 5	\$ 11
Non-cash Investing and Financing Activities		
Noncash preferred stock dividends	\$ 246	\$ 463
Issuance of notes in exchange for accounts payable	\$ -	\$ 288
Issuance of stock upon conversion of preferred stock	\$ 2,246	\$ 307
Issuance of warrants with term loan extensions	\$ 2,218	\$ 361
Issuance of stock in exchange for accounts payable	\$ -	\$ 86

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets consisted of the following at December 31, 2017 and 2016 (in thousands):

	December 31,			
	2017		2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	2,865	2,568	4,190	2,433
Customer relationships	2,460	2,093	2,460	1,404
Trademarks and trade names	680	469	680	393
	6,005	5,130	7,330	4,230
Accumulated amortization	5,130		4,230	
Impairment loss on technology platform	-		1,065	
Net book value of amortizable intangible assets	875		2,035	

For the years ended December 31, 2017 and 2016, amortization of intangible assets charged to operations was \$1,160 and \$1,731, respectively. For the years ended December 31, 2017 and 2016 we wrote-off fully amortized intangible assets of \$260 and \$0, respectively.

Estimated amortization is as follows:

Year ending December 31, 2017

2018	\$ 739
2019	76
2020	60

The Company has made comprehensive upgrades to its technology platform. Due to these upgrades, the Company evaluated the recoverability of the carrying amount of the original technology platform intangible asset at September 30, 2016. Based upon this evaluation, the Company determined that the technology platform intangible asset was impaired as its value was not recoverable and exceeded its fair value. The Company recognized an impairment loss of \$1,065 in 2016.

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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.

The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company performed its annual goodwill impairment test at September 30, 2017.

Utilizing the two-step impairment test, the Company first 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 for purchase orders expected to be completed in the fourth quarter of 2017 and orders already received or actively being negotiated for fiscal 2018. We also used these same expectations in a number of valuation models in addition to discounted cash flows, including, leveraged buy-out, trading comps and market capitalization, and ultimately determined an estimated fair value of our reporting unit based on weighted average calculations from these models. 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, 2017.

The Company updated its goodwill analysis as of December 31, 2017 using our actual fourth quarter 2017 results and updated projected 2018 results noting no impairment exists. 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 perform an analysis in order to determine whether goodwill is impaired.

NOTE 6: LOANS PAYABLE

At the end of December 2016 and the beginning of January 2017, Slipstream Communications, LLC, a related party, see Note 8: Related Party Transactions, purchased all of our outstanding debt from the original debtholders. The terms of the debt have remained the same. The outstanding debt with detachable warrants are shown in the table below. Further discussion of the notes follows.

<u>Issuance Date</u>	<u>Original Principal</u>	<u>Additional Principal</u>	<u>Total Principal</u>	<u>Maturity Date</u>	<u>Warrants</u>	
8/17/2016	3,000	-	3,000	8/17/2019	17,647,056	8.0% interest
6/29/2016	50	2	52	4/10/2019	89,286	14% interest*
6/13/2016	200	19	219	4/10/2019	357,143	14% interest*
6/13/2016	250	14	264	4/10/2019	446,429	14% interest*
5/3/2016	500	17	517	4/10/2019	892,857	14% interest*
12/28/2015	150	6	156	4/10/2019	267,857	14% interest*
12/28/2015	500	20	520	4/10/2019	892,857	14% interest*
12/28/2015	600	24	624	4/10/2019	1,071,429	14% interest*
10/26/2015	300	13	313	4/10/2019	535,714	14% interest*
10/15/2015	150	7	157	4/10/2019	267,857	14% interest*
10/15/2015	500	23	523	4/10/2019	892,857	14% interest*
6/23/2015	400	21	421	4/10/2019	640,000	14% interest*
6/23/2015	119	31	150	4/10/2019	935,210	Refinanced May 20, 2015 debt, 14% interest *
5/20/2015	465	-	465	4/10/2019	762,295	14% cash interest
	<u>\$ 7,184</u>	<u>\$ 197</u>	<u>\$ 7,381</u>		<u>25,698,847</u>	
Debt discount			(1,916)			
Total debt	<u>\$ 7,184</u>		<u>\$ 5,465</u>			

* 12% cash, 2% added to principal

Obligations under the secured convertible promissory notes are secured by a grant of collateral security in all of the tangible assets of the co-makers pursuant to the terms of an amended and restated security agreement.

Included in accrued expenses is unpaid interest of \$295 on outstanding debt.

Term Notes

On December 12, 2016, we entered into a \$1.0 million secured revolving promissory note pursuant to the August 17, 2016 Loan and Security Agreement with Slipstream Communications, LLC, a related party, addressed below (see Note 8), wherein we borrowed \$786 with interest thereon at 8% per annum, maturing on February 1, 2017. In connection with the loan, we issued the lender a five-year warrant to purchase up to 1,542,452 shares of common stock at a per-share price of \$0.28 (subject to adjustment), all pursuant to a securities purchase agreement. In connection with the secured revolving promissory note, we incurred fees aggregating \$37. The fair value of the warrants on the issuance date was \$136. This note was repaid on January 12, 2017.

On August 17, 2016, we entered into a Loan and Security Agreement with Slipstream Communications, LLC, a related party (see Note 8), under which we obtained a \$3.0 million term loan, with interest thereon at 8% per annum, maturing on August 17, 2017 (with a one-year option for us to extend that maturity, so long as we are not then in default and we deliver additional warrants to the lender). The term loan 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. In connection with this loan, we issued the lender a five-year warrant to purchase up to 5,882,352 shares of common stock shares of Creative Realities' common stock at a per-share price of \$0.28 (subject to adjustment), all pursuant to a securities purchase agreement. The proceeds from the loan were used to (i) satisfy the obligations owed to Allied Affiliated Lending, L.P. under the Factoring Agreement, (ii) pay off certain obligations under settlement arrangements in effect as of the date hereof (see Note 8), and (iii) obtain working capital. The Loan and Security Agreement permits the lender to make additional advances of up to an additional \$1.0 million. In connection with this financing transaction, we terminated the Factoring Agreement with Allied Affiliated Lending. Our principal subsidiaries — Creative Realities, Inc., Creative Realities, LLC, Conexus World Global, LLC, and Broadcast International, Inc. — were also parties to the securities purchase agreement and are co-makers of the secured convertible promissory notes. In connection with the term loan, we incurred fees aggregating \$20. The fair value of the warrants on the issuance date was \$361.

On August 10, 2017, Slipstream Communications, LLC extended the maturity date of the 8% senior notes to August 17, 2018. In exchange for the extension of the maturity date of the 8% senior notes, CRI provided 5,882,352 five-year warrants to purchase Company common shares. The fair value of the warrants was \$1,240, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

On November 13, 2017, Slipstream Communications, LLC extended the maturity dates for the term loan to August 17, 2019. In exchange for the extension of the maturity date of the 8% senior notes, CRI provided 5,882,352 five-year warrants to purchase Company common shares. The fair value of the warrants was \$976, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

See Note 11 for the Black Scholes inputs used to calculate the fair value of the warrants.

Convertible Promissory Notes

In December 2016 and January 2017, Slipstream Communications, LLC purchased all of our outstanding convertible promissory notes from the original debtholders. The terms of the notes have remained the same. Further discussion of the notes follows.

The convertible promissory notes were issued in a private placement exempt from registration under the Securities Act of 1933. Our principal subsidiaries — Creative Realities, LLC, Wireless Ronin Technologies Canada, Inc., and Conexus World Global, LLC — were also parties to the Securities Purchase Agreement and are co-makers of the secured convertible promissory notes. Obligations under the secured convertible promissory notes are secured by a grant of collateral security in all of the personal property of the co-makers pursuant to the terms of a security agreement. The secured convertible promissory notes bear interest at the rate of 14% per annum. Of this amount, 12% per annum is payable monthly in cash, and the remaining 2% per annum is payable in the form an additional principal through increases in the principal amount of the note. Upon the consummation of a change in control transaction of the company or a default, interest on the secured convertible promissory note will increase to the rate of 17% per annum. On August 10, 2017, Slipstream Communications, LLC extended the maturity date of the convertible notes to October 15, 2018. On November 13, 2017, Slipstream Communications, LLC elected to extend the maturity date of the convertible promissory notes on a rolling quarter addition basis to January 15, 2019, which is now April 10, 2019.

At any time prior to the maturity date, the holder of a promissory note may convert the outstanding principal and accrued and unpaid interest into our common stock at its conversion rate. We may not prepay the secured convertible promissory note prior to the maturity date. The secured convertible promissory note contains other customary terms. See Note 11 for the Black Scholes inputs used to calculate the fair value of the warrants.

On June 29, 2016, we entered into a secured convertible promissory note in the principal amount of \$50 and an immediately exercisable five-year warrant to purchase up to 89,286 shares of the Company's common stock at a per-share price of \$0.28 (subject to adjustment). The fair value of the warrants on the issuance date was \$6. This note was subsequently purchased by Slipstream Communications, LLC on December 20, 2016.

On June 13, 2016, upon receipt of an additional \$300 of principal, we exchanged two short term demand notes entered into in July 2015 totaling \$150 for two secured convertible promissory notes totaling a principal amount of \$450 and immediately exercisable five-year warrants to purchase up to 803,572 shares of the Company's common stock at a per-share price of \$0.28 (subject to adjustment). This exchange is accounted for as a modification of the debt. The fair value of the warrants on the issuance date was \$57. On December 20, 2016, \$200 of this note was subsequently purchased by Slipstream Communications, LLC, the remaining \$250 was already owed to Slipstream Communications, LLC.

On or about May 3, 2016, we entered into a secured convertible promissory note in the principal amount of \$500,000 and an immediately exercisable five-year warrant to purchase up to 892,857 shares of the Company's common stock at a per-share price of \$0.28 (subject to adjustment). In connection with the secured convertible promissory note, we incurred commissions to a placement agent aggregating \$25. The fair value of the warrants on the issuance date was \$89. This note was subsequently purchased by Slipstream Communications, LLC on December 22, 2016.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Structured Settlement Program

During March and December 2017, the Company settled and/or wrote off debt of \$1,159 for \$288 cash payment and recognized a gain of \$872. This debt included \$693 of payables previously recorded by our dissolved subsidiary Broadcast International, Inc, as we had exhausted all efforts to identify and settle these obligations in the first quarter of 2017.

In August 2016, the Company settled debt of \$90 for \$35 cash payment, resulting in a gain on debt settlement of \$55. In June 2016, the Company settled debt of \$614 for \$123 cash payment and the issuance of 409,347 shares of the Company's restricted common stock, fair value at conversion date of \$85, and recognized a gain on debt restructuring of \$406. In conjunction with this debt settlement, an additional 809,842 shares of restricted common stock were issued to investors for cash to facilitate the settlement of a portion of the \$614 debt.

In March 2016, the Company issued 8.00% nonconvertible promissory notes in favor of certain general unsecured creditors in the aggregate principal amount of \$288 to settle an aggregate amount of \$839 of accounts payable, accrued expenses and other liabilities. The aggregate amount of payables, accrued expenses and other liabilities was subsequently revised to \$796. In September 2016, the amounts previously settled with nonconvertible promissory notes were paid in cash of \$249 resulting in a gain on the debt settlement of \$547. No gain was previously recorded.

Litigation

In February 2016, a former vendor alleging our failure to pay outstanding invoices for approximately \$335, which is included in accounts payable in the December 31, 2016 accompanying consolidated balance sheet, initiated a breach-of-contract lawsuit against us. Also in February 2016, a former vendor alleging our failure to pay outstanding invoices for approximately \$51, which is included in accounts payable in the December 31, 2016 accompanying consolidated balance sheet, filed a motion for summary judgment against us. During 2017, we negotiated settlement with the vendor for \$45.

The Company is involved in various legal proceedings incidental to the operations of its business. The Company believes that the outcome of all such other pending legal proceedings in the aggregate will not have a material adverse effect on its business, financial condition, liquidity, or operating results.

Leases

Future minimum lease payments under leases with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2017 are as follows:

Year ending December 31,	Lease Obligations
2018	\$ 587
2019	499
2020	398
2021	61
Total future minimum obligations	\$ 1,545

Rent expense totaled \$474 and \$416 for the years ended December 31, 2017 and 2016, respectively, and is included in General and Administrative expenses.

Our CEO was awarded 4,951,557 performance shares with a grant date to be determined upon certain conditions being satisfied. As December 31, 2017 those conditions had not been met and were deemed not probable to be achieved resulting in no compensation expense being recorded.

Termination benefits

On August 10, 2017, the Company announced that it was closing its New Jersey and Minnesota locations. The Company has accrued one-time termination benefits related to severance to the affected employees of \$146 and will recognize the expense over the period the employees are expected to continue service to the Company.

NOTE 8: RELATED PARTY TRANSACTIONS

As discussed in Note 1, on September 1, 2017, our CEO received 3,198,054 shares of our common stock valued at \$1,119, as part of the issuance of the ConeXus Holdback shares. During the year-ended December 31, 2017, 5,422,604 of the 8,806,906 shares of common stock were issued to the CEO upon conversion of preferred stock.

For the years-ended December 31, 2017 and 2016, the Company had sales of \$3,390 and \$1,344, respectively, with a related party entity that is 22.5% owned by a member of senior management. Accounts receivable due from the related party was \$3,017 and \$543 at December 31, 2017 and 2016, respectively.

On November 13, 2017, Slipstream Communications, LLC, a related party investor, extended the maturity date of the term loan for which we issued to Slipstream Communications a five-year warrant to purchase up to 5,882,352 shares of common stock at a per-share price of \$0.28 (subject to adjustment). The fair value of the warrants on the issuance date was \$1.0 million.

On August 10, 2017, Slipstream Communications, LLC, a related party investor, extended the maturity date of the term loan for which we issued to Slipstream Communications a five-year warrant to purchase up to 5,882,352 shares of common stock at a per-share price of \$0.28 (subject to adjustment). The fair value of the warrants on the issuance date was \$1.2 million.

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In December 2016 and January 2017, the Company's majority shareholder and investor, Slipstream Communications LLC acquired all of the Company's outstanding debt (see Note 6).

On December 12, 2016, we entered into a \$1.0 million secured revolving promissory note pursuant to the August 17, 2016 Loan and Security Agreement with Slipstream Communications, LLC, a related party investor, with interest thereon at 8% per annum, maturing on February 1, 2017. In connection with the loan, we issued the lender a five-year warrant to purchase up to 1,542,452 shares of common stock at a per-share price of \$0.28 (subject to adjustment), all pursuant to a securities purchase agreement. This note was repaid on January 12, 2017.

On August 17, 2016, we entered into a Loan and Security Agreement with Slipstream Communications, LLC, a related party investor, under which we obtained a \$3.0 million term loan, with interest thereon at 8% per annum, maturing on August 17, 2018 (see Note 6). In connection with the loan, we issued the lender a five-year warrant to purchase up to 5,882,352 shares of Creative Realities' common stock at a per share price of \$0.28 (subject to adjustment).

NOTE 9: INCOME TAXES

Our gross deferred tax assets are primarily related to net federal and state operating loss carryforwards (NOLs). We have substantial NOLs that are limited in its 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. We have performed a preliminary analysis of the annual NOL carryforwards and limitations that are available to be used against taxable income. The estimated federal NOL carryforward after application of the IRC Section 382 limitation is \$19.3 million and foreign NOL carryforward is \$7.0 million as of December 31, 2017.

The Tax Cuts and Jobs Act (Tax Act) was enacted on December 22, 2017 and introduces significant changes to the U.S. income tax law. Effective in 2018, the Tax Act reduces U.S. statutory tax rates from 35% to 21%. Accordingly, we remeasured our deferred taxes as of December 31, 2017 to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized, resulting in a one-time \$0.2 million net tax benefit in 2017.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of December 31, 2017. As we collect and prepare necessary data, and interpret the Tax Act and any additional guidance issued by the Internal Revenue Service, and other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially impact our provision for income taxes and effective tax rate in the period in which adjustments are made. The accounting for the tax effects of the Tax Act will be completed in 2018.

A summary of the deferred tax assets and liabilities is included below:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Deferred tax assets (liabilities):		
Reserves	\$ 12	\$ 35
Property and equipment	80	171
Accrued expenses	619	1,034
Severance	56	39
Non-qualified stock options	268	420
Net foreign carryforwards	1,906	1,844
Net operating loss and credit carryforwards	6,801	8,054
Intangibles	605	907
Total deferred tax assets	10,347	12,504
Valuation allowance	(10,896)	(13,114)
Net deferred tax liabilities	<u>\$ (549)</u>	<u>\$ (610)</u>

	Year ended December 31,	
	2017	2016
Tax provision summary		
State income tax	\$ 21	\$ 18
Deferred tax benefit, release of valuation allowance	-	(635)
Deferred tax benefit - federal	2,382	(1,101)
Deferred tax benefit - state	(149)	(89)
Deferred tax benefit - foreign	(75)	(453)
Change in valuation allowance	(2,218)	1,895
Tax (benefit)/expense	<u>\$ (39)</u>	<u>\$ (365)</u>

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:

	2017	2016
Federal statutory rate	-34.00%	-34.00%
State taxes	-2.44%	-2.75%
Foreign rate differential	-0.08%	3.11%
Other	3.55%	1.68%
Impact of Tax Act	3.10%	0%
Changes in valuation allowance	-37.79%	36.72%
Effective tax rate	<u>-67.66%</u>	<u>4.80%</u>

NOTE 10: CONVERTIBLE PREFERRED STOCK

The preferred stock entitles its holders to a 6% dividend, payable semi-annually in cash or in kind through the three-year anniversary of the original issue date, and from and after such three-year anniversary in duly authorized, validly issued, fully paid and non-assessable shares of common stock. The three-year anniversary of the initial investment date occurred during the second half of 2017 for \$5.2 million of the \$5.5 million originally issued Convertible Preferred Stock and therefore dividends on those investments were paid via issuance of common shares as of the year-end date.

During the years ended December 31, 2017 and 2016 respectfully, the Company issued an aggregate of 245,816 and 452,224 shares of preferred stock in satisfaction of its semi-annual dividend obligation. During the years ended December 31, 2017 and 2016 respectfully, the Company issued an aggregate of 718,840 and 0 shares of common stock in satisfaction of its semi-annual dividend obligation.

The preferred stock may be converted into our common stock at the option of a holder at an initial conversion price as adjusted of \$0.255 per share. Subject to certain conditions, we may call and redeem the preferred stock after three years. From and after the three-year anniversary of the date of issuance, the Company has the right (but not the obligation), upon at least 30 days prior written notice, to call some or all of the Series A Preferred Stock for redemption at any time after the common stock has had a closing price on the relevant trading market, for a period of at least 15 consecutive days, all of which must be after the three-year anniversary date of the purchase agreement, equal to at least one and one-half times the initial conversion price.

During such time as a majority of the preferred stock sold remains outstanding, holders will have the right to elect a member to our Board of Directors. The preferred stock has full-ratchet price protection in the event that we issue common stock below the conversion price, as adjusted, subject to certain customary exceptions. The warrants issued to purchasers of the preferred stock contain weighted-average price protection in the event that we issue common stock below the exercise price, as adjusted, again subject to certain customary exceptions. In the Securities Purchase Agreement, we granted purchasers of the preferred stock certain registration rights pertaining to the common shares they may receive upon conversion of their preferred stock and upon exercise of their warrants.

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In 2017, 385,200 shares of Series A Convertible Preferred Stock and 1,860,561 shares of Series A-1 Convertible Preferred Stock were converted into 8,806,906 shares of common stock at the conversion rate of \$0.255 per share.

In 2016, 307,500 shares of Series A Preferred Stock were converted into 1,205,882 shares of common stock at the conversion rate of \$0.255 per share.

	Number of Convertible Preferred Series A	Number of Convertible Preferred Series A-1	Shares of Common Stock Received
Q4 2017	-	-	-
Q3 2017	132,200	1,860,561	7,814,749
Q2 2017	12,750	-	50,000
Q1 2017	240,250	-	942,157
Q4 2016	132,000	-	517,647
Q3 2016	75,500	-	296,078
Q2 2016	-	-	-
Q1 2016	100,000	-	392,157

During the quarter-ended September 30, 2017, the four holders of Series A-1 Convertible Preferred Stock (substantially similar in terms to the Company's Convertible Preferred Stock and issued to the shareholders of Conexus World Global LLC) converted all 1,860,561 shares of Series A-1 Convertible Preferred Stock into 7,296,318 shares of common stock. Additionally, certain accredited investors converted 132,200 shares of Series A Convertible Preferred Stock for 518,431 shares of common stock. During the quarter ended June 30, 2017, accredited investors converted 12,750 shares of Convertible Preferred Stock for 50,000 shares of common stock. During the quarter ended March 31, 2017, accredited investors converted 240,250 shares of Convertible Preferred Stock for 942,157 shares of common stock. During the three months ended December 31, September 30, and March 31, 2016, accredited investors converted 132,000, 75,500, and 100,000 shares of Convertible Preferred Stock for 517,647, 296,078 and 392,157 shares of common stock, respectively.

NOTE 11: WARRANTS

On November 13, 2017, the Company issued a warrant to purchase 5,882,352 shares of common stock at the per share price of \$0.28 (subject to adjustment) to Slipstream Communications, LLC in connection with extension of the term loan facility.

On August 10, 2017, the Company issued a warrant to purchase 5,882,352 shares of common stock at the per share price of \$0.28 (subject to adjustment) to Slipstream Communications, LLC in connection with extension of the term loan facility.

On August 17, 2016, the Company issued a warrant to purchase 5,882,352 shares of common stock at the per share price of \$0.28 (subject to adjustment) to Slipstream Communications, LLC in connection with extension of the term loan facility.

On June 29, 2016, the Company issued a warrant to purchase 89,286 shares of common stock at the per share price of \$0.28 (subject to adjustment) pursuant to a securities purchase agreement as more fully described in Note 7, Loans Payable.

On June 13, 2016, the Company issued a warrant to purchase 803,572 shares of common stock at the per share price of \$0.28 (subject to adjustment) pursuant to a securities purchase agreement as more fully described in Note 7, Loans Payable.

On May 3, 2016, the Company issued a warrant to purchase 892,857 shares common stock at the per share price of \$0.28 (subject to adjustment) pursuant to a securities purchase agreement as more fully described in Note 7, Loans Payable.

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On January 15, 2016, the Company issued a warrant to purchase 250,000 shares of the Company's common stock at the per share price of \$0.28 (subject to adjustment) in exchange for services rendered related to the issuance of debt on December 28, 2015. The fair value of the warrants on the issuance date was \$20. The warrants were initially recorded as a liability with a discount to the debt issued to amortized over the life of the debt but were reclassified to equity as a result of retrospective application of the adoption of ASU 2017-11.

Listed below are the range of inputs used for the probability weighted Black Scholes option pricing model valuations when the warrants were issued and at December 31, 2017.

Issuance Date	Expected Term at Issuance Date	Risk Free Interest Rate at Date of Issuance	Volatility at Date of Issuance	Stock Price at Date of Issuance
8/20/2014	5.00	1.50%	96.00%	\$0.63
2/13/2015	5.00	1.28%	100.00%	\$0.34
5/22/2015	5.00	1.28%	107.58%	\$0.29
10/15/2015	5.00	1.71%	58.48%	\$0.22
10/26/2015	5.00	1.71%	60.47%	\$0.21
12/21/2015	5.00	1.75%	58.48%	\$0.21
12/28/2015	5.00	1.75%	58.48%	\$0.16
1/15/2016	5.00	1.76%	58.48%	\$0.17
5/3/2016	5.00	1.25%	51.15%	\$0.21
6/13/2016	5.00	1.14%	51.12%	\$0.17
6/29/2016	5.00	1.01%	48.84%	\$0.17
8/17/2016	5.00	1.15%	51.55%	\$0.15
11/4/2016	5.00	1.66%	47.48%	\$0.16
12/12/2016	5.00	1.90%	48.54%	\$0.19
8/19/2017	5.00	1.81%	64.71%	\$0.35
11/13/2017	5.00	2.08%	66.24%	\$0.29
Remaining Expected Term at December 31, 2017	Risk Free Interest Rate at December 31, 2017	Volatility at December 31, 2017	Stock Price at December 31, 2017	
1.64 - 4.87	1.83%	72.34%	\$0.32	

A summary of outstanding debt and equity warrants is included below:

	Warrants (Equity)		Weighted Average Remaining Contractual Life	Warrants (Liability)		Weighted Average Remaining Contractual Life
	Amount	Weighted Average Exercise Price		Amount	Weighted Average Exercise Price	
Balance, January 1, 2016	12,937,902	1.88	3.90	6,487,500	0.35	3.64
Warrants issued to financial advisors	500,000	0.28	4.46	-	-	-
Warrants issued with promissory notes	1,785,715	0.28	4.37	-	-	-
Warrants issued with term loan	7,424,804	0.28	4.70	-	-	-
Warrants expired	(1,116,359)	11.52	-	-	-	-
Balance, December 31, 2016	21,532,062	0.65	3.79	6,487,500	0.35	2.64
Warrants issued with term loan	11,764,704	0.28	4.75	-	-	-
Warrants expired	(292,755)	46.68	-	-	-	-
Balance December 31, 2017	33,004,011	0.47	3.55	6,487,500	0.35	1.64

NOTE 12: STOCKHOLDERS' EQUITY

On August 9, 2017, our Board of Directors authorized a program to repurchase up to 5 million shares of our outstanding common stock through August 9, 2019. The authorization allows for the repurchases to be conducted through open market or privately negotiated transactions. Shares acquired under the stock repurchase program are expected to be retired and returned to the status of authorized but unissued shares of common stock. The stock repurchase program can be suspended, modified or discontinued at any time at our discretion. During the fourth quarter of 2017, 1,185,968 shares of common stock were repurchased at an aggregate price of \$149 and were immediately cancelled.

On September 1, 2017, the Company issued to the prior shareholders of ConeXus 5,631,373 shares of common stock valued at \$0.35 per share for a total of \$1,971 to settle the contingency of the Company in the ConeXus merger. 3,198,054 of these shares were issued to Rick Mills, a majority shareholder of ConeXus, a related party, and the CEO of Creative Realities, Inc. Since the measurement period for the business combination has expired, the issuance of the shares is recognized as a charge to operations during the year of \$1.9 million.

In May 2017, the Company paid a vendor for services at a value of \$500 with the issuance of 1,960,784 shares of common stock.

During 2017, accredited investors converted 2,245,511 shares of Convertible Preferred Stock in exchange for 8,806,906 shares of common stock. During 2016, accredited investors converted 307,500 shares of Convertible Preferred Stock in exchange for 1,205,882 shares of common stock. In conjunction with the structured settlement program, the Company issued 409,347 shares of its restricted common stock to creditors and 809,842 shares of stock were issued to investors (see Note 8).

A summary of outstanding options is included below:

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.18 - \$0.65	7,145,000	7.51	\$ 0.28	3,833,956	\$ 0.31
\$0.66 - \$0.79	30,000	6.04	0.79	30,000	\$ 0.79
\$0.80 - \$12.25	15,500	4.59	3.73	15,500	\$ 3.73
	<u>7,190,500</u>	<u>7.50</u>	<u>\$ 0.29</u>		

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2016	7,490,499	\$ 0.29
Granted	-	-
Exercised	-	-
Forfeited or expired	299,999	0.18
Balance, December 31, 2017	<u>7,190,500</u>	<u>\$ 0.29</u>

The weighted average remaining contractual life for options exercisable is 7.50 years as of December 31, 2017.

NOTE 13: STOCK-BASED COMPENSATION**Stock Compensation Expense Information**

FASB ASC 718-10 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 365,500 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. There are 6,825,000 options outstanding under the 2014 Stock Incentive Plan.

Compensation expense recognized for the issuance of stock options for the years ended December 31, 2017 and 2016 was as follows:

	December 31,	
	2017	2016
Stock-based compensation costs included in:		
Costs of sales	\$ 6	\$ 1
Sales and marketing expense	76	74
General and administrative expense	202	198
Total stock-based compensation expense	<u>\$ 284</u>	<u>\$ 273</u>

At December 31, 2017, there was approximately \$554 of total unrecognized compensation expense related to unvested share-based awards. Generally, this expense will be recognized over the next 1.6 years and will be adjusted for any future changes in estimated forfeitures.

Valuation Information for Stock-Based Compensation

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

There were no options granted during the year ended December 31, 2017.

On November 11, 2016, the Company granted 10-year options to purchase 425,000 shares of its common stock to an employee. The options vest over 4 years and have an exercise price of \$0.18. The fair value of the options on the grant date was \$0.09 and was determined using the Black-Scholes model. The values set forth above were calculated using the following weighted average assumptions:

Risk-free interest rate	1.14%
Expected term	6.25 years
Expected price volatility	47.89%
Dividend yield	0%

The Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment behavior, so we estimate the expected term of awards granted by taking the average of the vesting term and the contractual term of the awards, referred to as the simplified method. The risk-free interest rate assumption is based on observed interest rates appropriate for the term of the Company's stock options. The Company used historical closing stock price volatility for a period of 2 years. Although the Company has historical pricing for a period equal to the expected life of the respective awards, the Company used a shorter period of time as the Company went through reorganization and was fundamentally a different company. The dividend yield assumption is based on the Company's history and expectation of no future dividend payouts.

Our stock-based compensation expense is based on awards ultimately expected to vest and is reduced for estimated forfeitures as permitted by FASB ASU 2016-09, *Stock Compensation*, wherein a Company can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company applied a pre-vesting forfeiture rate of 10%.

NOTE 14: PROFIT-SHARING PLAN

We have a defined contribution 401(k) retirement plans for eligible associates. Associates may contribute up to 15% of their pretax compensation to the plan subject to IRS limitations. There are currently plans to implement an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3% on April 1, 2018.

NOTE 15: SEGMENT INFORMATION AND SIGNIFICANT CUSTOMERS

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. All sales for the years ended December 31, 2017 and 2016, were in the United States and Canada.

Major Customers

We had three and two customers that accounted for 63% and 71% of accounts receivable as of December 31, 2017 and 2016, respectively. We do not believe the loss of this customer will have a material adverse effect on our business. The Company had three customers that accounted for 56% and 56% of revenue for the years ended December 31, 2017 and 2016, respectively.

For the years ended December 31, 2017 and 2016, the Company had sales of \$3,390 and \$1,344, respectively, with a related party entity that is 22.5% owned by a member of senior management. Accounts receivable due from the related party was \$3,017 and \$543 at December 31, 2017 and 2016, respectively.

NOTE 16: SUBSEQUENT EVENTS

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream Communications, LLC which extended the period through which the Company could draw on the Revolver established by the Loan and Security Agreement. In conjunction with this Amendment, we entered into a \$1.0 million secured revolving promissory note pursuant to the August 17, 2016 Loan and Security Agreement with Slipstream Communications, LLC, a related party, addressed below (see Note 10), wherein we borrowed \$1.0 million with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the loan, we issued the lender a five-year warrant to purchase up to 1,851,851 shares of common stock at a per-share price of \$0.27 (subject to adjustment), all pursuant to a securities purchase agreement. In connection with the secured revolving promissory note, we did not incur any fees.

On August 10, 2017, we announced the planned closure of our office facilities located at 22 Audrey Place, Fairfield, New Jersey 07004 which housed our previous operations center and ceased use of the facilities in February 2018. In ceasing use of these facilities, we will incur a one-time non-cash charge of \$0.6 million in the first quarter of 2018 to accrue for the remaining rent under the lease term, net of anticipated subtenant rental income.

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

ASSETS	March 31, 2018 (unaudited)	December 31, 2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 742	\$ 1,003
Accounts receivable, net of allowance of \$59 and \$40, respectively	5,058	5,912
Unbilled receivables	316	77
Work-in-process and inventories	770	851
Prepaid expenses and other current assets	1,315	1,030
Total current assets	8,201	8,873
Property and equipment, net	1,189	1,136
Intangibles, net	643	875
Goodwill	14,989	14,989
Other assets	149	172
TOTAL ASSETS	\$ 25,171	\$ 26,045
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term related party loans payable, net of \$212 and \$0 discount, respectively	\$ 788	\$ -
Accounts payable	1,528	2,017
Accrued expenses	2,916	2,689
Deferred revenues	6,607	6,721
Customer deposits	1,276	1,247
Lease termination liability	474	-
Total current liabilities	13,589	12,674
Long-term related party loans payable, net of \$1,625 and \$1,916 discount, respectively	5,778	5,465
Warrant liability	661	858
Deferred tax liabilities	589	549
Other long-term liabilities	184	220
TOTAL LIABILITIES	20,801	19,766
COMMITMENTS AND CONTINGENCIES		
Convertible preferred stock, net of discount (liquidation preference of \$5,692)	1,927	1,927
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value, 200,000 shares authorized; 82,582 shares issued and outstanding	826	826
Additional paid-in capital	30,086	29,757
Accumulated deficit	(28,469)	(26,231)
Total shareholders' equity	2,443	4,352
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	25,171	26,045

See accompanying notes to condensed consolidated financial statements

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

	For the Three Months Ended March 31,	
	2018	2017
Sales		
Hardware	\$ 1,231	\$ 561
Services and other	2,835	5,858
Total sales	4,066	6,419
Cost of sales		
Hardware	1,100	564
Services and other	1,457	3,008
Total cost of sales (exclusive of depreciation and amortization shown below)	2,557	3,572
Gross profit	1,509	2,847
Operating expenses:		
Sales and marketing expenses	503	418
Research and development expenses	321	157
General and administrative expenses	1,703	1,747
Depreciation and amortization expense	327	402
Lease termination expense	474	-
Total operating expenses	3,328	2,724
Operating income/(loss)	(1,819)	123
Other income (expenses):		
Interest expense	(574)	(410)
Change in fair value of warrant liability	197	(8)
Gain on settlement of debt	-	866
Other income/(expense)	4	-
Total other income/(expense)	(373)	448
Income/(loss) before income taxes	(2,192)	571
Provision for income taxes	(46)	(79)
Net income/(loss)	(2,238)	492
Dividends on preferred stock	(111)	(113)
Net income/(loss) attributable to common shareholders	\$ (2,349)	\$ 379
Basic earnings/(loss) per common share	\$ (0.03)	\$ 0.01
Diluted earnings/(loss) per common share	\$ (0.03)	\$ 0.01
Weighted average shares outstanding - basic	82,582	67,112
Weighted average shares outstanding - diluted	82,582	67,112

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Operating Activities:		
Net income/(loss)	\$ (2,238)	\$ 492
Adjustments to reconcile net income/(loss) to net cash in operating activities		
Depreciation and amortization	327	402
Amortization of debt discount	345	195
Stock-based compensation	64	71
Change in warrant liability	(197)	8
Deferred tax provision	40	63
Allowance for doubtful accounts	19	18
Increase in notes due to in-kind interest	22	25
Charge for lease termination	474	-
Gain on settlement of debt and write-off of Broadcast International, Inc.	-	(866)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled revenues	596	2,155
Inventories	81	(153)
Prepaid expenses and other current assets	(285)	1
Other assets	23	(9)
Accounts payable	(489)	(759)
Deferred revenue	(114)	(64)
Accrued expenses	227	1,656
Deposits	29	(256)
Other non-current liabilities	(36)	-
Net cash provided by/(used) in operating activities	<u>(1,112)</u>	<u>2,979</u>
Investing activities		
Purchases of property and equipment	(149)	(141)
Net cash used in investing activities	<u>(149)</u>	<u>(141)</u>
Financing activities		
Proceeds from related party loans	1,000	-
Payments on debt	-	(786)
Net cash provided by/(used in) financing activities	<u>1,000</u>	<u>(786)</u>
Increase/(decrease) in Cash and Cash Equivalents	<u>(261)</u>	<u>2,052</u>
Cash and Cash Equivalents, beginning of period	<u>1,003</u>	<u>1,352</u>
Cash and Cash Equivalents, end of period	<u>\$ 742</u>	<u>\$ 3,404</u>

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS

Unless the context otherwise indicates, references in these Notes to the accompanying condensed consolidated financial statements to “we,” “us,” “our” and “the Company” refer to Creative Realities, Inc. and its subsidiaries.

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. We believe we are one of the world’s leading interactive marketing technology companies that focuses on the retail shopper experience by helping retailers and brands use the latest technologies to create better shopping experiences.

Our main operations are conducted directly through Creative Realities, Inc., and under our wholly owned subsidiaries Creative Realities, LLC, a Delaware limited liability company, Creative Realities Canada, Inc., and ConeXus World Global, LLC, a Kentucky limited liability company.

Liquidity and Financial Condition

The accompanying unaudited condensed 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.

We have incurred net losses and negative cash flows from operating activities for the years ended December 31, 2017 and 2016. For the three months ended March 31, 2018 and 2017 we recognized net income/(loss) of (\$2,238) and \$492 respectively. As of March 31, 2018, we had cash and cash equivalents of \$742 and working capital deficit of (\$5,388).

On November 13, 2017, Slipstream Communications, LLC, a related party, extended the maturity date of our term loan to August 17, 2019 and extended the maturity date of our promissory notes on a rolling quarter addition basis which is now May 25, 2019. While management believes that due to the extension of our debt maturity date, our current cash balance and our operational forecast for 2018, we can continue as a going concern through at least May 15, 2019, given our net losses and working capital deficit, we obtained a continued support letter from Slipstream Communications, LLC through May 15, 2019. 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 to the Condensed Consolidated Financial Statements for a discussion of the Company’s debt obligations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*1. Basis of Presentation*

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States ("GAAP") for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2018.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein.

2. Revenue Recognition

We recognize revenue on accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, which we adopted effective January 1, 2018, using the modified retrospective method. See further discussion of the impact of adoption and current revenue recognition policy in Note 4.

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:

	March 31, 2018	December 31, 2017
Finished goods	\$ 615	\$ 719
Work-in-process	155	132
Total inventories	<u>\$ 770</u>	<u>\$ 851</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 360-10-05-4, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under ASC 360-10-05-4, 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 and warrants totaling approximately 48.5 and 35.9 million at March 31, 2018 and March 31, 2017, respectively, were excluded from the computation of income/(loss) per share. Additionally, the potential common shares issuable upon conversion of convertible preferred stock and convertible promissory notes of 37.7 and 37.7 million were excluded at March 31, 2018 and 2017, respectively, as their effect was antidilutive due to net loss. Net income/(loss) attributable to common shareholders for the three months ended March 31, 2018 and 2017 is after dividends on convertible preferred stock of \$111 and \$113, respectively.

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 (other than goodwill), 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 March 31, 2018 and December 31, 2017.

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 a measurement date of September 30. There was no impairment loss recognized on goodwill or definite-lived intangible assets during the three months ended March 31, 2018 and 2017 (see Note 7).

8. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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, recognition of revenue, deferred tax assets, deferred revenue, depreciable lives and depreciation methods for property and equipment, valuation of warrants and other stock-based compensation 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.

NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2018, the FASB issued ASU 2018-05, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendments in this update provide guidance on when to record and disclose provisional amounts for certain income tax effects of the Tax Cuts and Jobs Act ("Tax Reform Act"). The amendments also require any provisional amounts or subsequent adjustments to be included in net income from continuing operations. Additionally, this ASU discusses required disclosures that an entity must make with regard to the Tax Reform Act. This ASU is effective immediately as new information is available to adjust provisional amounts that were previously recorded. The Company has adopted this standard and will continue to evaluate indicators that may give rise to a change in our tax provision as a result of the Tax Reform Act. Refer to Note 11 for additional information on the Tax Reform Act.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. ASU 2014-09 and its amendments were included primarily in ASC 606. The core principle of ASC 606 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASC 606 also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. We adopted ASC 606 effective January 1, 2018, using the modified retrospective method. Refer to Note 4.

In July 2017, the FASB issued Accounting Standards Update No. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities From Equity (Topic 480), Derivatives and Hedging (Topic 815) Part I. Accounting for Certain Financial Instruments With Down Round Features, Part II Replacement of the Indefinite Deferral for Mandatorily Redeemable Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. This update provided guidance that changes the classification analysis of certain equity-linked financial instruments with down-round features. These instruments are no longer accounted for as derivative liabilities at fair value as a result of the existence of a down round feature. The Company early adopted this ASU in 2017 and has applied the guidance in this ASU retrospectively to all prior periods. As a result of adopting this ASU, the Company no longer recognizes a liability related to 16,482,635 warrants, which were only classified as liabilities as a result of having down round features. The debt discount for those warrants has been recalculated to reflect the relative fair value of the warrants and the debt. In addition, the Company determined that the impact to the income/(loss) per share as a result of the down round features was not material. The impact to the financial statements for the three-months ended March 31, 2017 is as follows:

	Three months ended March 31, 2017	
	As previously reported	As adjusted
Operating income/(loss)	\$ 123	\$ 123
Other income (expenses):		
Interest expense	(484)	(410)
Change in fair value of warrant liability	(20)	(8)
Gain on settlement of debt	866	866
Other income/(expense)	-	-
Total other income/(expense)	362	448
Income/(loss) before income taxes	485	571
Benefit/(provision) from income taxes	(79)	(79)
Net income	406	492
Dividends on preferred stock	(113)	(113)
Net income attributable to common shareholders	\$ 293	\$ 379
Net income per common share - basic	\$ 0.00	\$ 0.01
Net income per common share - diluted	\$ 0.00	\$ 0.00
Weighted average shares outstanding - basic	67,112	67,112
Weighted average shares outstanding - diluted	96,711	96,711

In May 2017, the FASB issued ASU 2017-09 *Compensation—Stock Compensation (Topic 718) Scope of Modification Accounting*. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting for Stock Compensation. The Company adopted this standard effective January 1, 2018; there was no impact on our financial statements for any period presented as a result of adoption.

In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This update requires an entity to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. To address concerns over the cost and complexity of the two-step goodwill impairment test, the amendments in this ASU removes the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, early adoption is permitted. The Company does not expect the adoption of this guidance will have a material impact on our financial statements.

In January 2017, the FASB issued ASU 2017-01 *Business Combinations*, guidance clarifying the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The guidance provides a screen to determine when an integrated set of assets and activities is not a business, provides a framework to assist entities in evaluating whether both an input and substantive process are present, and narrows the definition of the term output. The Company adopted this standard on a prospective basis effective January 1, 2018.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, including those related to debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance, and distributions received from equity method investees. The Company adopted this standard effective January 1, 2018; there was no impact on our financial statements for any period presented as a result of adoption.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides guidance with respect to measuring credit losses on financial instruments, including trade receivables. This guidance eliminates the probable initial recognition threshold that was previously required prior to recognizing a credit loss on financial instruments. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses. Under the previous guidance, an entity only considered past events and current conditions. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact, if any that the adoption of this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amended guidance for lease arrangements in order to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. The guidance, which is required to be adopted in the first quarter of 2019, will be applied on a modified retrospective basis beginning with the earliest period presented. Early adoption is permitted. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

NOTE 4: REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts not completed as of the date of adoption. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. Under this method, we concluded that the cumulative effect of applying this guidance was not material to the financial statements and no adjustment to the opening balance of accumulated deficit was required on the adoption date.

Under ASC 606, the Company accounts 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, the Company satisfies the performance obligations

The Company combines contracts with the same customer into a single contract for accounting purposes when the contracts are entered into at or near the same time and the contracts are negotiated as a single commercial package, consideration in one contract depends on the other contract, or the services are considered a single performance obligation. 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.

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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.

As discussed in more detail below, 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. 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.

Deferred contract acquisition costs were evaluated for inclusion in other assets; however, the Company elected to use the practical expedient for recording an immediate expense for those 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.

The Company 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's 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 typically generate revenue through the following sources:

- Hardware:
 - System hardware sales – displays, computers and peripherals
- Services and Other:
 - Professional implementation and installation services
 - Software design and development services
 - Software as a service, including content management
 - Maintenance and support services

System hardware sales

Included in "hardware" are system hardware sales whereby 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. The prior period amounts and data have been reclassified in the financial statements and related notes in order to conform to the 2018 presentation.

Installation services

The Company performs outsourced installation services for customers and recognizes revenue upon completion of the installations.

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.

The aggregate amount of the transaction price allocated to installation service performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2018 were \$550. We expect to recognize approximately \$433 during the three months ended June 30, 2018 and the remainder in the three months ended December 31, 2018.

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 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. We account for revenue from these services in accordance with ASC 985-20-15-5 and recognize revenue ratably over the performance period.

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 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 over the term of the agreement in proportion to the costs incurred in fulfilling performance obligations under the contract.

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.

In addition to changes in the timing of when we record variable consideration, ASC 606 provided clarification about the classification of certain costs relating to revenue arrangements with customers. As a result of our analysis, we did not identify any components of our revenue transactions which required reclassification between gross and net presentation.

NOTE 5: FAIR VALUE MEASUREMENT

We measure certain financial assets, including cash equivalents, at fair value on a recurring basis. In accordance with FASB 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 following table presents information about the Company's warrant liabilities that are measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques the Company used to determine such fair value. See Note 12 for the inputs used for the probability weighted Black Scholes valuations when the warrants were issued and at March 31, 2018.

Description	Fair Value	Quote Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Warrant liabilities at December 31, 2017	\$ 858	-	-	\$ 858
Warrant liabilities at March 31, 2018	\$ 661	-	-	\$ 661

The change in level 3 fair value is as follows:

Warrant liability as of December 31, 2017	\$ 858
New warrant liabilities	-
Decrease in fair value of warrant liability	197
Ending warrant liability as of March 31, 2018	\$ 661

NOTE 6: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

Supplemental Cash Flow Information	Three Months Ended March 31,	
	2018	2017
Non-cash Investing and Financing Activities		
Noncash preferred stock dividends	\$ -	\$ 113
Issuance of stock upon conversion of preferred stock	\$ -	\$ 240
Issuance of warrants with term loan extensions	\$ 266	\$ -

NOTE 7: INTANGIBLE ASSETS

Intangible Assets

Intangible assets consisted of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	2,865	2,667	2,865	2,568
Customer relationships	2,460	2,207	2,460	2,093
Trademarks and trade names	680	488	680	469
	6,005	5,362	6,005	5,130
Accumulated amortization	5,362		5,130	
Net book value of amortizable intangible assets	643		875	

For the three months ended March 31, 2018 and 2017, amortization of intangible assets charged to operations was \$232 and \$323, respectively.

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NOTE 8: LOANS PAYABLE

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

Issuance Date	Original Principal	Additional Principal	Total Principal	Maturity Date	Warrants	
1/16/2018	\$ 1,000	\$ -	1,000	1/16/2019	1,851,851	8.0% interest
8/17/2016	3,000	-	3,000	8/17/2019	17,647,056	8.0% interest
6/29/2016	50	2	52	5/25/2019	89,286	14% interest - 12% cash, 2% added to principal
6/13/2016	200	20	220	5/25/2019	357,143	14% interest - 12% cash, 2% added to principal
6/13/2016	250	15	265	5/25/2019	446,429	14% interest - 12% cash, 2% added to principal
5/3/2016	500	20	520	5/25/2019	892,857	14% interest - 12% cash, 2% added to principal
12/28/2015	150	7	157	5/25/2019	267,857	14% interest - 12% cash, 2% added to principal
12/28/2015	500	23	523	5/25/2019	892,857	14% interest - 12% cash, 2% added to principal
12/28/2015	600	28	628	5/25/2019	1,071,429	14% interest - 12% cash, 2% added to principal
10/26/2015	300	15	315	5/25/2019	535,714	14% interest - 12% cash, 2% added to principal
10/15/2015	150	7	157	5/25/2019	267,857	14% interest - 12% cash, 2% added to principal
10/15/2015	500	25	525	5/25/2019	892,857	14% interest - 12% cash, 2% added to principal
6/23/2015	400	23	423	5/25/2019	640,000	14% interest - 12% cash, 2% added to principal
6/23/2015	119	34	153	5/25/2019	935,210	Refinanced May 20, 2015 debt, 14% interest*
5/20/2015	465		465	5/25/2019	762,295	14% interest - 12% cash, 2% added to principal
	<u>\$ 8,184</u>	<u>\$ 219</u>	<u>\$ 8,403</u>		<u>27,550,698</u>	
Debt discount			(1,837)			
Total debt	<u>\$ 8,184</u>	<u>\$</u>	<u>\$ 6,566</u>			

* 12% cash, 2% added to principal

Obligations under the secured convertible promissory notes are secured by a grant of collateral security in all of the tangible assets of the co-makers pursuant to the terms of an amended and restated security agreement.

Term Notes

On August 17, 2016, we entered into a Loan and Security Agreement with Slipstream Communications, LLC (“Slipstream”), a related party (see Note 10), and obtained a \$3.0 million term loan, with interest thereon at 8% per annum. The loan currently matures August 17, 2019. The term loan 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.

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream and obtained a \$1.0 million revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the loan, we issued Slipstream a five-year warrant to purchase up to 1,851,851 shares of Creative Realities’ common stock at a per share price of \$0.27 (subject to adjustment). The fair value of the warrants was \$266, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

Our principal subsidiaries – Creative Realities, Inc., Creative Realities, LLC, and Conexus World Global, LLC – are co-makers of the secured convertible promissory notes.

See Note 12 for the Black Scholes inputs used to calculate the fair value of the warrants.

Convertible Promissory Notes

In December 2016 and January 2017, Slipstream Communications, LLC purchased all of our outstanding convertible promissory notes from the original debtholders. The terms of the notes are set forth in the table above and are discussed in further detail below.

The convertible promissory notes were issued in a private placement exempt from registration under the Securities Act of 1933. Our principal subsidiaries — Creative Realities, LLC, Creative Realities Canada, Inc., and Conexus World Global, LLC — are also parties to the Securities Purchase Agreement and are co-makers of the secured convertible promissory notes. Obligations under the secured convertible promissory notes are secured by a grant of collateral security in all of the personal property of the co-makers pursuant to the terms of a security agreement. Obligations under the secured convertible promissory notes are secured by a grant of collateral security in all the personal property of the co-makers pursuant to the terms of a security agreement. The secured convertible promissory notes bear interest at the rate of 14% per annum. Of this amount, 12% per annum is payable monthly in cash, and the remaining 2% per annum is payable in the form an additional principal through increases in the principal amount of the note. Upon the consummation of a change in control transaction of the Company or a default, interest on the secured convertible promissory note will increase to the rate of 17% per annum. The secured convertible promissory note contains other customary terms. See Note 11 for the Black Scholes inputs used to calculate the fair value of the warrants issued in connection with such notes. On August 10, 2017, Slipstream extended the maturity date of all the promissory notes to October 15, 2018. The change was accounted for as a modification of the debt. On November 13, 2017, Slipstream elected to extend the maturity date of the convertible promissory notes on a rolling quarter addition basis to January 15, 2019, which is now extended to May 25, 2019.

At any time prior to the maturity date, the holder of a promissory note may convert the outstanding principal and accrued and unpaid interest into our common stock at its conversion rate. We may not prepay the secured convertible promissory note prior to the maturity date. The secured convertible promissory note contains other customary terms. See Note 13 for the Black Scholes inputs used to calculate the fair value of the warrants.

On June 29, 2016, we entered into a secured convertible promissory note in the principal amount of \$50 and an immediately exercisable five-year warrant to purchase up to 89,286 shares of the Company’s common stock at a per-share price of \$0.28 (subject to adjustment). The fair value of the warrants on the issuance date was \$6, which the Company subsequently revised pursuant to ASU 2017-11 to be \$4. This note was subsequently purchased by Slipstream on December 22, 2016. See Note 2 for details on the effect this ASU had on the Company’s financial statements.

On June 13, 2016, upon receipt of an additional \$300 of principal, we exchanged two short term demand notes entered into in July 2015 totaling \$150 for two secured convertible promissory notes totaling a principal amount of \$450 and immediately exercisable five-year warrants to purchase up to 803,572 shares of the Company’s common stock at a per-share price of \$0.28 (subject to adjustment). This exchange was accounted for as a modification of the debt. The fair value of the warrants on the issuance date was \$57, which the Company subsequently revised pursuant to ASU 2017-11 to be \$40. On December 20, 2016, \$200 of this note was subsequently purchased by Slipstream; the remaining \$250 was already owed to Slipstream. See Note 2 for details on the effect this ASU had on the Company’s financial statements.

On or about May 3, 2016, we entered into a secured convertible promissory note in the principal amount of \$500,000 and an immediately exercisable five-year warrant to purchase up to 892,857 shares of the Company's common stock at a per-share price of \$0.28 (subject to adjustment). In connection with the secured convertible promissory note, we incurred commissions to a placement agent aggregating \$25. The fair value of the warrants on the issuance date was \$89, which the Company subsequently revised pursuant to ASU 2017-11 to be \$60. This note was subsequently purchased by Slipstream on December 22, 2016. See Note 2 for details on the effect this ASU had on the Company's financial statements.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Lease termination

On August 10, 2017, we announced the planned closure of our office facilities located at 22 Audrey Place, Fairfield, New Jersey 07004 which housed our previous operations center and ceased use of the facilities in February 2018. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$474 to accrue for the remaining rent under the lease term, net of anticipated subtenant rental income.

Structured Settlement Program

In March 2017, the Company settled and/or wrote off debt of \$1,109 for \$243 cash payment and recognized a gain of \$866. This debt included \$693 of payables previously recorded by our dissolved subsidiary Broadcast International, Inc, as we had exhausted all efforts to identify and settle these obligations in the first quarter of 2017. There were no such settlements in 2018.

Litigation

The Company is involved in various legal proceedings incidental to the operations of its business. The Company believes that the outcome of all such other pending legal proceedings in the aggregate will not have a material adverse effect on its business, financial condition, liquidity, or operating results.

Termination benefits

On August 10, 2017, the Company announced that it was closing its New Jersey and Minnesota locations. As of March 31, 2018, the Company has accrued one-time termination benefits related to severance to the affected employees of \$75 and will recognize the expense over the period the employees are expected to continue service to the Company.

NOTE 10: RELATED PARTY TRANSACTIONS

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream Communications, LLC, a related party investor, under which we obtained a \$1.0 million revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the loan, we issued the lender a five-year warrant to purchase up to 1,851,851 shares of Creative Realities' common stock at a per share price of \$0.27 (subject to adjustment). The fair value of the warrants was \$266, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

For the quarter ended March 31, 2018, the Company had sales with a related party entity that is approximately 20% owned by a member of senior management. Sales were \$417 for the quarter ended March 31, 2018 and \$108 during the quarter ended March 31, 2017. Accounts receivable due from the related party was \$2,503 and \$3,017 at March 31, 2018 and December 31, 2017, respectively.

In December 2016 and January 2017, the Company's majority shareholder and investor, Slipstream Communications LLC acquired all of the Company's outstanding debt (see Note 8).

NOTE 11: INCOME TAXES

Our deferred tax assets are primarily related to net federal and state operating loss carryforwards (NOLs). We have substantial NOLs that are limited in its 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. 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.

For the three months ended March 31, 2018, we reported tax expense of \$46 including \$40 resulting from the goodwill on the acquisition of Wireless Ronin Technologies. The net deferred liability at March 31, 2018 of \$589 represents the liability relating to indefinite lived assets, which is not more likely than not to be offset by the Company's deferred tax assets.

The Tax Reform Act was signed into law on December 22, 2017. Among other things, the Tax Reform Act reduced the U.S. federal corporate tax rate from 35.0 percent to 21.0 percent effective for tax years beginning after December 31, 2017. We applied the guidance in the U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 118 ("SAB 118") when accounting for the enactment date effects of the Tax Reform Act. Accordingly, we remeasured our deferred taxes as of December 31, 2017 to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized, resulting in a one-time \$0.2 million net tax benefit in 2017. Upon further analyses of certain aspects of the Tax Reform Act and refinement of our calculations during the three months ended March 31, 2018, we made no adjustments to our provisional amounts recorded. We consider the accounting for the enactment-date remeasurement of deferred tax assets and liabilities to be complete as of March 31, 2018.

NOTE 12: CONVERTIBLE PREFERRED STOCK

The preferred stock entitles its holders to a 6% dividend, payable semi-annually in cash or in kind through the three-year anniversary of the original issue date, and from and after such three-year anniversary in duly authorized, validly issued, fully paid and non-assessable shares of common stock. The three-year anniversary of the initial investment date occurred during the second half of 2017 for \$5.2 million and the first quarter of 2018 for the remaining \$0.3 million originally issued Convertible Preferred Stock and therefore dividends on those investments will be paid via issuance of common shares at all future dividend dates. As of March 31, 2018, the pro rata portion of earned dividends to be distributed as of June 30, 2018 were the equivalent of 3,822 Series A Preferred Stock, which represents 371,073 equivalent common shares based on the volume-weighted adjusted price utilized for conversion. The fair value of these shares are reflected at fair value as a dividend on preferred stock in the condensed consolidated statement of operations and do not impact net loss for the period.

The preferred stock may be converted into our common stock at the option of a holder at an initial conversion price as adjusted of \$0.255 per share. Subject to certain conditions, we may call and redeem the preferred stock after three years. From and after the three-year anniversary of the date of issuance, the Company has the right (but not the obligation), upon at least 30 days prior written notice, to call some or all of the Series A Preferred Stock for redemption at any time after the common stock has had a closing price on the relevant trading market, for a period of at least 15 consecutive days, all of which must be after the three-year anniversary date of the purchase agreement, equal to at least one and one-half times the initial conversion price.

During such time as a majority of the preferred stock sold remains outstanding, holders will have the right to elect a member to our Board of Directors. The preferred stock has full-ratchet price protection in the event that we issue common stock below the conversion price, as adjusted, subject to certain customary exceptions. The warrants issued to purchasers of the preferred stock contain weighted-average price protection in the event that we issue common stock below the exercise price, as adjusted, again subject to certain customary exceptions. In the Securities Purchase Agreement, we granted purchasers of the preferred stock certain registration rights pertaining to the common shares they may receive upon conversion of their preferred stock and upon exercise of their warrants.

During the quarter ended March 31, 2018, there were no conversions of Convertible Preferred Stock into common stock. During the quarter ended March 31, 2017, accredited investors converted 240,250 shares of Series A Convertible Preferred Stock for 942,157 shares of common stock.

NOTE 13: WARRANTS

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream Communications, LLC, a related party investor, under which we obtained a \$1.0 million revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the loan, we issued the lender a five-year warrant to purchase up to 1,851,851 shares of Creative Realities' common stock at a per share price of \$0.27 (subject to adjustment). The fair value of the warrants on the issuance date was \$266.

Listed below are the range of inputs used for the probability weighted Black Scholes option pricing model valuations when the warrants were issued and at March 31, 2018.

Issuance Date	Expected Term at Issuance Date	Risk Free Interest Rate at Date of Issuance	Volatility at Date of Issuance	Stock Price at Date of Issuance
8/20/2014	5.00	1.50%	96.00%	\$ 0.63
2/13/2015	5.00	1.28%	100.00%	\$ 0.34
5/22/2015	5.00	1.28%	107.58%	\$ 0.29
10/15/2015	5.00	1.71%	58.48%	\$ 0.22
10/26/2015	5.00	1.71%	60.47%	\$ 0.21
12/21/2015	5.00	1.75%	58.48%	\$ 0.21
12/28/2015	5.00	1.75%	58.48%	\$ 0.16
1/15/2016	5.00	1.76%	58.48%	\$ 0.17
5/3/2016	5.00	1.25%	51.15%	\$ 0.21
6/13/2016	5.00	1.14%	51.12%	\$ 0.17
6/29/2016	5.00	1.01%	48.84%	\$ 0.17
8/17/2016	5.00	1.15%	51.55%	\$ 0.15
11/4/2016	5.00	1.66%	47.48%	\$ 0.16
12/12/2016	5.00	1.90%	48.54%	\$ 0.19
8/19/2017	5.00	1.81%	64.71%	\$ 0.35
11/13/2017	5.00	2.08%	66.24%	\$ 0.29
1/16/2018	5.00	2.36%	65.07%	\$ 0.27

Remaining Expected Term at March 31, 2018	Risk Free Interest Rate at March 31, 2018	Volatility at March 31, 2018	Stock Price at March 31, 2018
0.1 - 4.8	2.18%	65.07%	\$ 0.30

A summary of outstanding debt and equity warrants is included below:

	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, 2018	33,004,011	0.47	3.55	6,487,500	0.35	1.64
Warrants issued with revolver loan	1,851,852	0.27	4.80	-	-	-
Warrants expired	530,513	10.73	-	-	-	-
Balance March 31, 2018	<u>34,325,350</u>	<u>0.30</u>	<u>3.43</u>	<u>6,487,500</u>	<u>0.35</u>	<u>1.39</u>

NOTE 14: STOCKHOLDERS' EQUITY

A summary of outstanding options is included below:

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.18 - \$0.65	7,620,000	7.44	\$ 0.28	4,196,314	\$ 0.31
\$0.66 - \$0.79	30,000	5.79	0.79	30,000	\$ 0.79
\$0.80 - \$12.25	15,500	4.34	3.73	15,500	\$ 3.73
	<u>7,665,500</u>	<u>7.43</u>	<u>\$ 0.29</u>		

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2017	7,190,500	\$ 0.29
Granted	575,000	0.29
Exercised	-	-
Forfeited or expired	(100,000)	0.19
Balance, March 31, 2018	<u>7,665,500</u>	<u>\$ 0.29</u>

The weighted average remaining contractual life for options exercisable is 7.43 years as of March 31, 2018.

NOTE 15: STOCK-BASED COMPENSATION

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 365,500 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. There are 7,300,000 options outstanding under the 2014 Stock Incentive Plan.

Compensation expense recognized for the issuance of stock options for the three ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31,	
	2018	2017
Stock-based compensation costs included in:		
Costs of sales	\$ (6)	\$ 2
Sales and marketing expense	6	19
General and administrative expense	64	50
Total stock-based compensation expense	<u>\$ 64</u>	<u>\$ 71</u>

At March 31, 2018, there was approximately \$409 of total unrecognized compensation expense related to unvested share-based awards. Generally, this expense will be recognized over the next 2.3 years and will be adjusted for any future changes in estimated forfeitures.

Stock-based compensation expense is based on awards ultimately expected to vest and is reduced for estimated forfeitures. ASC 718-10-55 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company applied a pre-vesting forfeiture rate of 10% based on upon actual historical experience for employee option awards of the registrant.

On October 15, 2015, our current CEO was awarded 4,951,557 performance shares with a grant date to be determined upon certain conditions being satisfied. Those conditions had not been met as of March 31, 2018 and no compensation expense had been recorded.

NOTE 16: SEGMENT INFORMATION AND SIGNIFICANT CUSTOMERS

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 sales for the three months ended March 31, 2018 and 2017 were in the United States and Canada.

Major Customers

We had 2 and 3 customers that in the aggregate accounted for 58% and 63% of accounts receivable as of March 31, 2018 and December 31, 2017, respectively.

The Company had 4 and 1 customers that accounted for 66% and 68% of revenue for the three months ended March 31, 2018 and 2017, respectively.

For the quarters ended March 31, 2018 and 2017, the Company had sales of \$417 and \$108, respectively, with a related party entity that is approximately 20% owned by a member of senior management. Accounts receivable due from the related party was \$2,503 and \$3,017 at March 31, 2018 and December 31, 2017, respectively.

NOTE 17: SUBSEQUENT EVENTS

On April 27, 2018, we entered into the Fourth Amendment to the Loan and Security Agreement with Slipstream Communications, LLC, a related party investor, under which we obtained an additional \$1.1 million revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the loan, we issued the lender a five-year warrant to purchase up to 4,313,725 shares of Creative Realities' common stock at a per share price of \$0.27 (subject to adjustment). The fair value of the warrants was \$543, which will be accounted for as an additional debt discount and amortized over the remaining life of the loan.

As part of the Fourth Amendment to the Loan and Security Agreement, we entered into a Secured Disbursed Escrow Promissory Note with Slipstream Communications, LLC, a related party investor, under which we obtained a three-year interest free \$264 note.



CREATIVE REALITIES, INC.

[●] shares of Common Stock

PROSPECTUS

Dated _____, 2018

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Set forth below are expenses we expect to incur in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee, the amounts set forth below are estimates and actual expenses may vary considerably from these estimates depending upon how long the notes are offered and other factors:

Securities and Exchange Commission registration fee	\$	996.00
FINRA filing fee	\$	[●]
NASDAQ listing fee	\$	[●]
Accounting fees and expenses	\$	[●]
Legal fees and expenses	\$	[●]
Transfer agent and registrar fees	\$	[●]
Printing and mailing expenses	\$	[●]
Miscellaneous	\$	[●]

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The registrant is subject to Minnesota Statutes, Chapter 302A, the Minnesota Business Corporation Act (the "Corporation Act"). Section 302A.521 of the Corporation Act provides in substance that, unless prohibited by its articles of incorporation or bylaws, a Minnesota corporation must indemnify an officer or director who is made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by such person in connection with the proceeding, if certain criteria are met. These criteria, all of which must be met by the person seeking indemnification, are as follows: (a) such person has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions; (b) such person must have acted in good faith; (c) no improper personal benefit was obtained by such person and such person satisfied certain statutory conflicts of interest provisions, if applicable; (d) in the case of a criminal proceeding, such person had no reasonable cause to believe that the conduct was unlawful; and (e) in the case of acts or omissions occurring in such person's performance in an official capacity, such person must have acted in a manner such person reasonably believed was in the best interests of the corporation or, in certain limited circumstances, not opposed to the best interests of the corporation. In addition, Section 302A.521, subd. 3, requires payment by the registrant, upon written request, of reasonable expenses in advance of final disposition in certain instances. A decision as to required indemnification is made by a majority of the disinterested board of directors present at a meeting at which a disinterested quorum is present, or by a designated committee of disinterested directors, by special legal counsel, by the disinterested shareholders, or by a court.

The registrant also maintains a director and officer insurance policy to cover the registrant, its directors and its officers against certain liabilities.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

During 2018, accredited investors converted 128,754 shares of Series A Convertible Preferred Stock for 504,918 shares of common stock at the conversion rate of \$0.255 per share. During 2017, accredited investors converted 385,200 shares of Series A Convertible Preferred Stock and 1,860,561 shares of Series A-1 Convertible Preferred Stock for 8,806,906 shares of common stock at the conversion rate of \$0.255 per share. During 2016, accredited investors converted 307,500 shares of Convertible Preferred Stock for 1,205,882 shares of common stock. For these issuances, we relied on the statutory exemptions from registration under Section 4(a)(2) of the Securities Act, including Rule 506 promulgated thereunder. We relied on this exemption based on the fact that all the investors were accredited investors. The Company and the investors entered into registration rights agreements requiring Creative Realities to register under the Securities Act of 1933 the resale of the shares of common stock issuable upon conversion of the secured notes and upon exercise of the warrants.

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In April 2018, we entered into a \$1.1 million secured revolving promissory note. In connection with the loan, we issued the lender a five-year warrant to purchase up to 4,313,725 shares of common stock at a per share price of \$0.27 (subject to adjustment), all pursuant to a securities purchase agreement. The fair value of the warrants was \$543. For this issuance, we relied on the statutory exemptions from registration under Section 4(a)(2) of the Securities Act, including Rule 506 promulgated thereunder. We relied on this exemption based on the fact that the investor was an accredited investor.

In January 2018, we entered into a \$1.0 million secured revolving promissory note. In connection with the loan, we issued the lender a five-year warrant to purchase up to 1,851,851 shares of common stock at a per-share price of \$0.27 (subject to adjustment), all pursuant to a securities purchase agreement. For this issuance, we relied on the statutory exemptions from registration under Section 4(a)(2) of the Securities Act, including Rule 506 promulgated thereunder. We relied on this exemption based on the fact that the investor was an accredited investor.

In November 2017, in connection with the extension of the maturity date of our term loan, we issued the lender a five-year warrant to purchase up to 5,882,352 shares of common stock at a per-share price of \$0.28 (subject to adjustment). The fair value of the warrants on the issuance date was \$1.0 million. For this issuance, we relied on the statutory exemptions from registration under Section 4(a)(2) of the Securities Act, including Rule 506 promulgated thereunder. We relied on this exemption based on the fact that the investor was an accredited investor.

In August 2017, in connection with the extension of the maturity date of our term loan, we issued to the lender a five-year warrant to purchase up to 5,882,352 shares of common stock at a per-share price of \$0.28 (subject to adjustment). The fair value of the warrants on the issuance date was \$1.2 million. For this issuance, we relied on the statutory exemptions from registration under Section 4(a)(2) of the Securities Act, including Rule 506 promulgated thereunder. We relied on this exemption based on the fact that the investor was an accredited investor.

In December 2016, we entered into a \$1.0 million secured revolving promissory note. In connection with the loan, we issued the lender a five-year warrant to purchase up to 1,542,452 shares of common stock at a per-share price of \$0.28 (subject to adjustment), all pursuant to a securities purchase agreement. The fair value of the warrants on the issuance date was \$136. This note was repaid on January 12, 2017. For this issuance, we relied on the statutory exemptions from registration under Section 4(a)(2) of the Securities Act, including Rule 506 promulgated thereunder. We relied on this exemption based on the fact that the investor was an accredited investor.

On August 17, 2016, we entered into a Loan and Security Agreement with Slipstream Communications, LLC, a related party investor, under which we obtained a \$3.0 million term loan, with interest thereon at 8% per annum, maturing on August 17, 2018. In connection with the loan, we issued the lender a five-year warrant to purchase up to 5,882,352 shares of Creative Realities' common stock at a per share price of \$0.28 (subject to adjustment).

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ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits. The exhibits listed below are filed as a part of this registration statement.

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger and Reorganization dated as of August 11, 2015, by and among the registrant, CXW Acquisition, Inc. and ConeXus World Global, LLC (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2015)
2.2	Amendment to Agreement and Plan of Merger and Reorganization dated as of October 15, 2015, by and among the registrant, CXW Acquisition, Inc. and ConeXus World Global, LLC (incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on October 21, 2015)
2.3	Second Amendment to Agreement and Plan of Merger and Reorganization and Waiver dated as of September 1, 2017 (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2017)
3.1	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)
3.2	Amended and Restated Bylaws (incorporated by reference to the registrant's Current Report on Form 8-K filed on November 2, 2011)
4.1	Series A Convertible Preferred Stock Certificate of Designation of Preferences, Rights and Limitations filed August 19, 2014 (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed with the SEC on August 22, 2014)
4.2	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)
5.0	Legal Opinion of Paul D. Chestovich, Esq. (to be filed by amendment).
10.1	Securities Purchase Agreement dated February 18, 2015 by and between Creative Realities, Inc. and Mill City Ventures II, Ltd. (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the SEC on February 24, 2015)
10.2	Secured Convertible Promissory Note dated February 18, 2015, issued in favor of Mill City Ventures III, Ltd. (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed with the SEC on February 24, 2015)
10.3	Warrant dated February 18, 2015, issued in favor of Mill City Ventures III, Ltd. (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed with the SEC on February 24, 2015)
10.4	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)
10.5	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 registrant's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2015)
10.6	Warrant to Purchase Common Stock, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2015)
10.7	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)
10.8	Form of Warrant (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)

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10.9	<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>
10.10	<u>Factoring Agreement dated October 15, 2015, by and among the registrant and Allied Affiliated Funding, L.P. (incorporated by reference to the registrant’s Current Report on Form 8-K filed with the SEC on October 21, 2015)</u>
10.11	<u>Warrant dated December 22, 2015, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant’s Annual Report on Form 10-K filed with the SEC on April 4, 2016)</u>
10.12	<u>Form of Amended and Restated 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>
10.13	<u>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>
10.14	<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>
10.15	<u>Form of Warrant (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>
10.16	<u>Form of Amended and Restated Security 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>
10.17	<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>
10.18	<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>
10.19	<u>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)</u>
10.20	<u>Employment Agreement with John Walpuck (incorporated by reference to the registrant’s Annual Report on Form 10-K filed with the SEC on March 28, 2017)</u>
10.21	<u>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)</u>
10.22	<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>
10.23	<u>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>

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10.24	<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>
10.25	<u>Warrant dated November 13, 2017, issued in favor of Slipstream Communications, LLC</u>
10.26	<u>Warrant dated January 16, 2018, issued in favor of Slipstream Communications, LLC</u>
10.27	<u>First Amendment to Loan and Security Agreement dated as of August 10, 2017 among Slipstream Communications, LLC, registrant and registrant’s subsidiaries.</u>
10.28	<u>Second Amendment to Loan and Security Agreement dated as of November 13, 2017 among Slipstream Communications, LLC, registrant and registrant’s subsidiaries.</u>
10.29	<u>Third Amendment to Loan and Security Agreement dated as of January 16, 2018 among Slipstream Communications, LLC, registrant and registrant’s subsidiaries.</u>
10.30	<u>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)</u>
10.31	<u>Fourth Amendment to Loan and Security Agreement with Slipstream Communications, LLC, dated as of April 27, 2018.</u>
10.32	<u>Warrant to Purchase Common Stock issued to Slipstream Communications, LLC on April 27, 2018.</u>
10.33	<u>Second Allonge to Secured Revolving Promissory Note issued in favor of Slipstream Communications, LLC., dated as of April 27, 2018.</u>
10.34	<u>Second Allonge to Amended and Restated Secured Term Promissory Note issued in favor of Slipstream Communications, LLC., dated as of April 27, 2018</u>
10.35	<u>Secured Disbursed Escrow Promissory Note issued in favor of Slipstream Communications, LLC, in principal amount of \$264,000 dated as of April 27, 2018</u>
21	List of Subsidiaries (to be filed by amendment)
23.1	<u>Consent of EisnerAmper LLP (filed herewith).</u>
23.2	Consent of Paul D. Chestovich, Esq. (included within Exhibit 5)
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

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i) to include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
 - (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, an increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;
 - (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) [intentionally omitted]
- (5) For the purpose of determining any liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.
- (6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:
 - (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
 - (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
 - (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
 - (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

CREATIVE REALITIES, INC.

By: /s/ Richard Mills
Chief Executive Officer

Dated: August 3, 2018

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the inclusion in this Registration Statement of Creative Realities, Inc. on Amendment No. 1 to Form S-1 (No. 333-225876) to be filed on or about August 3, 2018 of our report dated March 26, 2018, on our audits of the consolidated financial statements as of December 31, 2017 and 2016 and for each of the years then ended. Our report includes an explanatory paragraph about a change in accounting principle. We also consent to the reference to our firm under the caption "Experts" in the Registration Statement on Amendment No. 1 to Form S-1.

/s/ EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
August 3, 2018