

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

or

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

For the transition period from _____ to _____

Commission File Number 001-33169



Creative Realities, Inc.

(Exact Name of Registrant as Specified in its Charter)

Minnesota

41-1967918

State or Other Jurisdiction of
Incorporation or Organization

I.R.S. Employer
Identification No.

13100 Magisterial Drive, Suite 100, Louisville KY

40223

Address of Principal Executive Offices

Zip Code

(502) 791-8800

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 15, 2021, the registrant had 11,937,980 shares of common stock outstanding.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,772	\$ 1,826
Accounts receivable, net of allowance of \$489 and \$1,230, respectively	2,591	2,302
Unbilled receivables	180	41
Work-in-process and inventories, net	1,952	2,351
Prepaid expenses and other current assets	1,517	507
Total current assets	\$ 9,012	\$ 7,027
Operating lease right-of-use assets	712	931
Property and equipment, net	1,155	1,340
Intangibles, net	3,372	3,790
Goodwill	7,525	7,525
Other assets	5	5
TOTAL ASSETS	<u>\$ 21,781</u>	<u>\$ 20,618</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term seller note payable	\$ -	\$ 1,637
Short-term related party convertible loans payable, at fair value	1,209	-
Accounts payable	1,554	1,661
Accrued expenses	1,694	2,142
Deferred revenues	770	764
Customer deposits	368	770
Current maturities of operating and finance leases	283	359
Total current liabilities	\$ 5,878	\$ 7,333
Long-term Payroll Protection Program note payable	-	1,552
Long-term related party loans payable, net of \$171 and \$168 discount, respectively	4,595	4,436
Long-term related party convertible loans payable, at fair value	1,042	2,270
Long-term obligations under operating leases	472	584
Long-term accrued expenses	29	108
TOTAL LIABILITIES	<u>\$ 12,016</u>	<u>\$ 16,283</u>
SHAREHOLDERS' EQUITY		
Common stock, \$0.01 par value, 200,000 shares authorized; 11,919 and 10,924 shares issued and outstanding, respectively	119	109
Additional paid-in capital	60,178	56,712
Accumulated deficit	(50,532)	(52,486)
Total shareholders' equity	\$ 9,765	\$ 4,335
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 21,781</u>	<u>\$ 20,618</u>

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 September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Sales				
Hardware	\$ 2,215	\$ 2,850	\$ 6,327	\$ 5,818
Services and other	2,538	2,257	6,707	6,649
Total sales	<u>4,753</u>	<u>5,107</u>	<u>13,034</u>	<u>12,467</u>
Cost of sales				
Hardware	1,588	1,882	4,372	4,161
Services and other	818	781	2,206	2,438
Total cost of sales	<u>2,406</u>	<u>2,663</u>	<u>6,578</u>	<u>6,599</u>
Gross profit	2,347	2,444	6,456	5,868
Operating expenses:				
Sales and marketing expenses	330	411	834	1,209
Research and development expenses	226	229	455	787
General and administrative expenses	1,848	1,849	5,623	6,340
Bad debt (recovery) / expense	-	-	(463)	830
Depreciation and amortization expense	347	377	1,035	1,123
Goodwill impairment	-	-	-	10,646
Total operating expenses	<u>2,751</u>	<u>2,866</u>	<u>7,484</u>	<u>20,935</u>
Operating loss	(404)	(422)	(1,028)	(15,067)
Other income / (expenses):				
Interest expense	(186)	(265)	(617)	(752)
Gain on settlement of obligations	256	114	3,449	155
Change in fair value of Convertible Loan	-	-	166	(702)
Other expense	(8)	(13)	(7)	(13)
Total other income / (expense)	<u>62</u>	<u>(164)</u>	<u>2,991</u>	<u>(1,312)</u>
Income/(loss) before income taxes	(342)	(586)	1,963	(16,379)
Benefit/(provision) for income taxes	(1)	1	(9)	152
Net income/(loss)	<u>\$ (343)</u>	<u>\$ (585)</u>	<u>\$ 1,954</u>	<u>\$ (16,227)</u>
Basic earnings/(loss) per common share	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ 0.17</u>	<u>\$ (1.63)</u>
Diluted earnings/(loss) per common share	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ 0.17</u>	<u>\$ (1.63)</u>
Weighted average shares outstanding - basic	<u>11,897</u>	<u>10,312</u>	<u>11,692</u>	<u>9,977</u>
Weighted average shares outstanding - diluted	<u>11,897</u>	<u>10,312</u>	<u>11,692</u>	<u>9,977</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2021	2020
Operating Activities:		
Net income/(loss)	\$ 1,954	\$ (16,227)
Adjustments to reconcile net income/(loss) to net cash used in operating activities		
Depreciation and amortization	1,035	1,123
Amortization of debt discount	130	254
Stock-based compensation	1,252	442
Shares issued for services	85	-
Gain on forgiveness of Paycheck Protection Program	(1,552)	-
Gain on settlement of Seller Note	(1,538)	-
Change in fair value of Convertible Loan	(166)	702
Deferred tax benefit	-	(175)
Allowance for doubtful accounts	(274)	701
Increase in notes due to in-kind interest	467	356
Loss on goodwill impairment	-	10,646
Loss on disposal of assets	-	13
Gain on settlement of obligations	(359)	(135)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled receivables	(154)	523
Inventories	399	(2,283)
Prepaid expenses and other current assets	(1,010)	(99)
Operating lease right-of-use assets, net	219	411
Other assets	-	133
Accounts payable	(94)	214
Deferred revenue	6	244
Accrued expenses	(181)	(664)
Deposits	(402)	120
Operating lease liabilities, non-current	(184)	(409)
Net cash used in operating activities	<u>(367)</u>	<u>(4,110)</u>
Investing activities		
Purchases of property and equipment	(10)	(161)
Capitalization of labor for software development	(422)	(398)
Net cash used in investing activities	<u>(432)</u>	<u>(559)</u>
Financing activities		
Principal payments on finance leases	(4)	(18)
Proceeds from Paycheck Protection Program loan	-	1,552
Issuance of common stock – warrant exercise	-	121
Repayment of Seller Note	(100)	-
Proceeds from sale of shares via registered direct offering, net	1,849	1,335
Net cash provided by financing activities	<u>1,745</u>	<u>2,990</u>
Increase/(decrease) in Cash and Cash Equivalents	<u>946</u>	<u>(1,679)</u>
Cash and Cash Equivalents, beginning of period	<u>1,826</u>	<u>2,534</u>
Cash and Cash Equivalents, end of period	<u>\$ 2,772</u>	<u>\$ 855</u>

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except shares)

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Three months ended September 30, 2021</i>					
Balance as of June 30, 2021	11,876,679	\$ 118	\$ 59,777	\$ (50,189)	\$ 9,706
Shares issued for services	31,257	-	45	-	45
Shares issued to directors as compensation	11,524	1	25	-	26
Stock-based compensation	-	-	331	-	331
Net income / (loss)	-	-	-	(343)	(343)
Balance as of September 30, 2021	<u>11,919,460</u>	<u>\$ 119</u>	<u>\$ 60,178</u>	<u>\$ (50,532)</u>	<u>\$ 9,765</u>

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Nine months ended September 30, 2021</i>					
Balance as of December 31, 2020	10,924,287	\$ 109	\$ 56,712	\$ (52,486)	\$ 4,335
Shares issued for services	53,461	1	84	-	85
Shares issued to directors as compensation	44,568	-	75	-	75
Stock-based compensation	-	-	1,177	-	1,177
Conversion of Disbursed Escrow Loan	97,144	1	263	-	264
Gain on Extinguishment of Special Loan	-	-	26	-	26
Sales of Shares via registered direct offering, net of offering cost	800,000	8	1,841	-	1,849
Net income / (loss)	-	-	-	1,954	1,954
Balance as of September 30, 2021	<u>11,919,460</u>	<u>\$ 119</u>	<u>\$ 60,178</u>	<u>\$ (50,532)</u>	<u>\$ 9,765</u>

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Three months ended September 30, 2020</i>					
Balance as of June 30, 2020	9,854,623	\$ 98	\$ 54,342	\$ (51,284)	\$ 3,156
Stock-based compensation	-	-	248	-	248
Shares issued to directors as compensation	10,044	-	25	-	25
Shares issued through at-the-market offering	578,183	6	1,329	-	1,335
Net income / (loss)	-	-	-	(585)	(585)
Balance as of September 30, 2020	<u>10,442,850</u>	<u>\$ 104</u>	<u>\$ 55,944</u>	<u>\$ (51,869)</u>	<u>\$ 4,179</u>

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Nine months ended September 30, 2020</i>					
Balance as of December 31, 2019	9,774,546	\$ 98	\$ 54,052	\$ (35,642)	\$ 18,508
Shares issued to directors as compensation	62,521	-	74	-	74
Stock-based compensation	-	-	368	-	368
Shares issued through at-the-market offering	578,183	6	1,329	-	1,335
Exercise of warrants	27,600	-	121	-	121
Net income / (loss)	-	-	-	(16,227)	(16,227)
Balance as of September 30, 2020	<u>10,442,850</u>	<u>\$ 104</u>	<u>\$ 55,944</u>	<u>\$ (51,869)</u>	<u>\$ 4,179</u>

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(all currency in thousands, except 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.

Nature of the Company’s Business

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

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

Liquidity and Financial Condition

The accompanying 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 and do not include any adjustments to the recoverability and classifications of recorded assets and liabilities as a result of uncertainties.

For the three months ended September 30, 2021 and 2020 we incurred net losses of \$343 and \$585, respectively. For the nine months ended September 30, 2021 and 2020, we recognized/(incurred) net income/(losses) of \$1,954 and (\$16,227), respectively. As of September 30, 2021, we had cash and cash equivalents of \$2,772 and a working capital surplus of \$3,134.

On January 11, 2021, we received a notice from Old National Bank regarding forgiveness of the loan in the principal amount of \$1,552 (the “PPP Loan”) that was made pursuant to the Small Business Administration Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act of 2020. According to such notice, the full principal amount of the PPP Loan and the accrued interest have been forgiven, resulting in a gain of \$1,552 during the three months ended March 31, 2021.

On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company’s common stock (the “Shares”), in a registered direct offering (the “Offering”) at a purchase price of \$2.50 per Share, for gross proceeds of \$2,000. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1,849, which the Company intends to use for general corporate purposes. The closing of the Offering occurred on February 22, 2021.

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

On May 13, 2021, the Company and Christie Digital Systems, Inc. ("Seller") entered into a settlement agreement with respect to the Amended and Restated Seller Note wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, \$100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements. The settlement resulted in the Company recording a gain on settlement of obligations of \$1,624, representing \$1,538 related to the Seller Note and \$86 of related interest thereon, during the three months ended June 30, 2021.

Management believes that, based on (i) the forgiveness of our PPP Loan, (ii) the execution of the Offering and remaining availability for incremental offerings under our previously registered Form S-3 registration statement (including our current at-the-market offering), (iii) the refinancing of our debt, including extension of the maturity date on our term and convertible loans, as well as access to incremental borrowings under the new multi-advance line of credit, (iv) the settlement of the Seller Note, and (v) our operational forecast through 2022, we can continue as a going concern through at least November 15, 2022. However, given our history of net losses and cash used in operating activities, we obtained a continued support letter from Slipstream through November 15, 2022. We can provide no assurance that our ongoing operational efforts will be successful, which could have a material adverse effect on our results of operations and cash flows.

See Note 8 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company's debt obligations and further discussion of the Company's refinancing activities during the three and nine months ended September 30, 2021.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the applicable instructions to Form 10-Q and Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for 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, 2020, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2021.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. Management believes the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including normal recurring items, considered necessary for a fair statement of results for the interim periods presented.

2. Revenue Recognition

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

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

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

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

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

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

3. Inventories

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

	September 30, 2021	December 31, 2020
Raw materials, net of reserve of \$260 and \$104, respectively	\$ 1,771	\$ 1,920
Inventory on consignment with distributors	10	208
Work-in-process	171	223
Total inventories	<u>\$ 1,952</u>	<u>\$ 2,351</u>

4. Impairment of Long-Lived Assets

We review the carrying value of all long-lived assets, including property and equipment, for impairment in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under ASC 360, impairment losses are recorded whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We evaluated whether there were any triggering events for consideration of impairment of long-lived assets as of September 30, 2021 and concluded there were none.

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

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

Basic and diluted income/(loss) per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding includes only outstanding common shares. Diluted weighted average shares outstanding includes outstanding common shares and potential dilutive common shares outstanding in accordance with the treasury stock method. Shares reserved for outstanding stock options, including stock options with performance restricted vesting, and warrants totaling approximately 6,776,771 at September 30, 2021 were excluded from the computation of income/(loss) per share as the strike price on the options and warrants were higher than the Company's market price and therefore anti-dilutive. Diluted weighted average shares outstanding for the three and nine-months ended September 30, 2021 included 8,333 options which were both exercisable and in-the-money as of September 30, 2021. Those options were included in the calculation of diluted earnings per share as of the beginning of the calculation period. Shares reserved for outstanding stock options, including stock options with performance restricted vesting, and warrants totaling approximately 7,229,998 at September 30, 2020 were excluded from the computation of income/(loss) per share due to the net loss in the period.

In calculating diluted earnings per share for the three and nine months ended September 30, 2021 and 2020, in accordance with ASC 260, *Earnings per share*, we excluded the dilutive effect of the potential issuance of common stock upon an assumed conversion of the Convertible Loan as we have the intent and ability to settle the debt in cash.

6. Income Taxes

Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from net operating losses, differences in basis of intangibles, stock-based compensation, reserves for uncollectible accounts receivable and inventory, differences in depreciation methods, and accrued expenses. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company accounts for uncertain tax positions utilizing an established recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We had no uncertain tax positions as of September 30, 2021 and December 31, 2020.

7. Goodwill

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 (see Note 7 Intangible Assets and Goodwill). For quarters that do not coincide with the measurement date, we evaluate whether there are any triggering events for consideration of impairment of goodwill.

8. Use of Estimates

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

9. Leases

We account for leases in accordance with ASC 842, *Leases*, as amended.

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

Operating leases are included in operating lease right-of-use assets, current maturities of operating leases, and long-term obligations under operating leases on our condensed consolidated balance sheets. Finance leases are included in property and equipment, net, current maturities of finance leases, and long-term obligations under financing leases on our condensed consolidated balance sheets.

NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently adopted

None.

Not yet adopted

In August 2020, the FASB issued Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (ASU 2020-06)*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. This guidance will be effective for us in the first quarter of 2024 on a full or modified retrospective basis, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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

NOTE 4: REVENUE RECOGNITION

The Company applies ASC 606 for revenue recognition. The following table disaggregates the Company's revenue by major source for the three and nine months ended September 30, 2021 and 2020:

<i>(in thousands)</i>	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Hardware	\$ 2,215	\$ 2,850	\$ 6,327	\$ 5,818
Services:				
Installation Services	985	674	2,057	2,006
Software Development Services	109	248	476	427
Managed Services	1,444	1,335	4,174	4,216
Total Services	<u>2,538</u>	<u>2,257</u>	<u>6,707</u>	<u>6,649</u>
Total Hardware and Services	<u>\$ 4,753</u>	<u>\$ 5,107</u>	<u>\$ 13,034</u>	<u>\$ 12,467</u>

System hardware sales

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

Installation services

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

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

The aggregate amount of the transaction price allocated to installation service performance obligations that are partially unsatisfied as of September 30, 2021 and 2020 were \$35 and \$0.

Software design and development services

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

Software as a service

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

Maintenance and support services

The Company sells maintenance and support services which include access to technical support personnel for software and hardware troubleshooting and monitoring of the health of a customer's network, access to a sophisticated web-portal for managing the end-to-end hardware and software digital ecosystem, and hosting support services through our network operations center, or NOC. These services provide either physical or automated remote monitoring which support customer networks 7 days a week, 24 hours a day.

These contracts are generally 12-36 months in length and generally automatically renew for additional 12-month periods unless cancelled by the customer. Rates for maintenance and support contracts are typically established based upon a fee per location or fee per device structure, with total fees subject to the number of services selected. Revenue is recognized ratably and evenly over the term of the agreement. Maintenance and Support revenues are classified as "Managed Services" within our disaggregated revenue.

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

NOTE 5: FAIR VALUE MEASUREMENT

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

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

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

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

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

As discussed in Note 8 *Loans Payable*, the Convertible Loan is reported at fair value. This liability is deemed to be a Level 3 valuation. Certain unobservable inputs into the calculation of the fair value of this liability include an estimate of the fair value of the Company at a future date using a discounted cash flow model, discount rate assumptions, and an estimation of the likelihood of conversion of the Convertible Loan. We utilized a discounted cash flow analysis in updating our fair value analysis of the Convertible Loan, resulting in recognition of a \$0 and \$166 gain during the three and nine-months ended September 30, 2021, respectively, from the change in fair value of the liability and a corresponding increase in the debt balance recorded in the Condensed Consolidated Balance Sheet. The Company recorded a \$0 and \$702 loss during the same periods in 2020, respectively, related to the fair value of the Special Loan.

NOTE 6: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Nine Months Ended September 30,	
	2021	2020
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	\$ -	\$ -
Income taxes, net	\$ 23	\$ 17

NOTE 7: INTANGIBLE ASSETS, INCLUDING GOODWILL*Intangible Assets*

Intangible assets consisted of the following at September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	\$ 4,635	3,589	\$ 4,635	3,400
Customer relationships	3,960	1,644	5,330	2,870
Trademarks and trade names	640	630	1,020	925
	<u>9,235</u>	<u>5,863</u>	<u>10,985</u>	<u>7,195</u>
Accumulated amortization	5,863		7,195	
Net book value of amortizable intangible assets	<u>\$ 3,372</u>		<u>\$ 3,790</u>	

For the three months ended September 30, 2021 and 2020, amortization of intangible assets charged to operations was \$139 and \$161, respectively. For the nine months ended September 30, 2021 and 2020 amortization of intangible assets charged to operations was \$418 and \$478, respectively.

Goodwill

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. There were no indicators of impairment as of or during the three and nine months ended September 30, 2021.

Interim Impairment Assessment – March 31, 2020

Despite the excess fair value identified in our 2019 annual impairment assessment, we determined that the reduced cash flow projections and the significant decline in our market capitalization as a result of the COVID-19 pandemic during the three months ended March 31, 2020 indicated that an impairment loss may have been incurred during the first quarter. As a result of our qualitative assessment, we concluded that indicators of impairment were present and that a quantitative interim impairment assessment of our goodwill was necessary, resulting in us recording a non-cash impairment loss of \$10,646 as of March 31, 2020. We recorded the estimated impairment losses in the caption “Goodwill impairment” in our Consolidated Statement of Operations.

NOTE 8: LOANS PAYABLE

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

As of September 30, 2021

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
G	3/7/2021	4,766	3/31/2023	649,965	8.0% interest ⁽¹⁾
H	3/7/2021	2,417	3/31/2023	-	10.0% interest ⁽¹⁾
	Total debt, gross	7,183		649,965	
	Fair value (H)	(166)			
	Total debt, gross	7,017			
	Debt discount	(171)			
	Total debt, net	\$ 6,846			
	Less current maturities	1,209			
	Long term debt	\$ 5,637			

As of December 31, 2020

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

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

(1) Interest is paid-in-kind (“PIK”) through October 2021, at which point interest becomes payable in cash.

SBA Paycheck Protection Program Loan

On April 27, 2020, the Company entered into a Promissory Note with Old National Bank (the “Promissory Note”), which provided for an unsecured loan of \$1,552 (the “PPP Loan”) pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the “CARES Act”). The Promissory Note had a term of two years with a 1% per annum interest rate.

On January 11, 2021, the Company received a notice from Old National Bank that the full principal amount of the PPP Loan and the accrued interest have been forgiven, resulting in a gain of \$1,552 during the six months ended June 30, 2021.

Amended and Restated Loan and Security Agreement

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

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

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

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

The Credit Agreement limits the Company’s ability to issue Shares as follows (the “Exchange Limitations”): (1) The total number of Shares that may be issued under the Credit Agreement will be limited to 19.99% of the Company’s outstanding shares of common stock on the date the Credit Agreement is signed (the “Exchange Cap”), unless stockholder approval is obtained to issue shares in excess of the Exchange Cap; (2) if Slipstream and its affiliates (the “Slipstream Group”) beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares and such shares are less than 19.99% of the then-issued and outstanding shares of Company common stock, the issuance of such Payment Shares will not cause the Slipstream Group to beneficially own in excess of 19.99% of the issued and outstanding shares of Company common stock after such issuance unless stockholder approval is obtained for ownership in excess of 19.99%; and (3) if the Slipstream Group does not beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares, the Company may not issue Payment Shares to the extent that such issuance would result in Slipstream Group beneficially owning more than 19.99% of the then issued and outstanding shares of Company common stock unless (A) such ownership would not be the largest ownership position in the Company, or (B) stockholder approval is obtained for ownership in excess of 19.99%. On May 17, 2021, the Company’s stockholders approved the issuance of Shares in excess of the Exchange Limitations.

We evaluated the instruments within the Credit Agreement separately for purposes of concluding on whether the amendment represented a modification or extinguishment in accordance with ASC 470 *Debt*.

The Convertible Loan was deemed to have had a substantive conversion feature both added and removed via the Credit Agreement, one which the holder is reasonably willing and able to exercise their rights under the agreement, resulting in extinguishment accounting for the Convertible Loan during the three months ended March 31, 2021. Pursuant to ASC 825-10-25-1, *Fair Value Option*, we made an irrevocable election to report the Convertible Loan at fair value, with changes in fair value recorded through the Company’s Condensed Consolidated Statement of Operations in each reporting period.

We evaluated the Credit Agreement in accordance with ASC 470 *Debt*. The New Term Loan was accounted for as a modification, resulting in recording of \$133 of incremental debt discount which will be amortized straight-line over the remaining life of the debt. We recorded a net gain of \$26 via the extinguishment of the Special Loan, which was recorded as additional paid in capital in the Statement of Shareholders Equity given the transaction was with a related party, Slipstream. We expensed \$69 of costs incurred with third parties as a result of extinguishment of the Special Loan, modification of the New Term Loan, and extinguishment of the Disbursed Escrow Loan.

Loan and Security Agreement History

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

On February 28, 2021, January 31, 2021, December 31, 2020, November 30, 2020, and September 29, 2020, the Company entered into amendments to Loan and Security Agreement with its subsidiaries and Slipstream to amend the automatic conversion date of the Special Loan. Each amendment extended the automatic conversion date of the Special Loan. The Company paid no fees in exchange for these extensions.

Secured Disbursed Escrow Promissory Note

The Fourth Amendment to the Loan and Security Agreement included entry into a Secured Disbursed Escrow Promissory Note between the Company and Slipstream, and, effective June 30, 2018, we drew \$264 in conjunction with our exit from a previously leased operating facility. The principal amount of the Secured Disbursed Escrow Promissory Note bears no interest. Upon entry into the Credit Agreement on March 7, 2021, this note was converted into Disbursed Escrow Conversion Shares, with elimination of the debt recorded as an equity issuance with the Statement of Shareholders Equity during the three months ended March 31, 2021.

Amended and Restated Seller Note from acquisition of Allure

The Amended and Restated Seller Note represented a note payable due from Allure to Seller, under a pre-existing Seller Note which was amended and restated to a reduced amount of \$1,637 through the Stock Purchase Agreement and a subsequent net working capital adjustment. That debt accrued interest at 3.5% per annum, and required us to make quarterly payments of interest only through February 19, 2020, on which date the promissory note matured and all remaining amounts owing thereunder became due.

On February 20, 2020, Creative Realities, Inc. and Allure made a demand for arbitration against Seller for (1) breach of contract, (2) indemnification, and (3) fraudulent misrepresentation under the Allure Purchase Agreement.

On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, \$100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Amended and Restated Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements.

As a result of this settlement, the full principal amount of the Seller Note and the accrued interest have been eliminated, resulting in a gain in the Condensed Consolidated Financial statements of \$1,624, representing \$1,538 related to the Seller Note and \$86 of related interest thereon, during the three months ended June 30, 2021.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Litigation

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

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

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

Except as noted above, the Company is not party to any other material legal proceedings, other than ordinary routine litigation incidental to the business, as of November 15, 2021, and there were no other such proceedings pending during the period covered by this Report.

Settlement of obligations

During the nine months ended September 30, 2021, (i) the full principal amount of the PPP Loan and the accrued interest of \$1,552 were forgiven and recorded as a gain on settlement, (ii) the Company settled the Amended and Restated Seller Note and related accrued interest for \$100, recording a gain on settlement of \$1,624, representing \$1,538 related to the Amended and Restated Seller Note and \$86 of related interest thereon, and (iii) the statute of limitations passed related to the remaining liability on a lease abandoned by the Company in 2015, resulting in a gain of \$256.

During the three and nine months ended September 30, 2020, the Company settled and/or wrote off other obligations of \$155 and \$406, respectively.

NOTE 10: RELATED PARTY TRANSACTIONS

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

33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management (“33 Degrees”), is a customer of both equipment and services from the Company. For the three and nine months ended September 30, 2021, the Company had sales to 33 Degrees of \$82, or 1.7%, and \$365, or 2.8%, respectively, of consolidated revenue. For the three and nine months ended September 30, 2020, the Company had sales to 33 Degrees of \$131, or 2.6%, and \$922, or 7.4%, respectively, of consolidated revenue.

Accounts receivable due from 33 Degrees was \$5, or 0.17%, and \$40, or 1.2% of consolidated accounts receivable at September 30, 2021 and December 31, 2020, respectively.

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 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 with a definite life.

For the three and nine-months ended September 30, 2021, we reported tax expense of \$1 and \$9, respectively. As of September 30, 2021, the net deferred tax assets totaled \$0 after valuation allowance, consistent with December 31, 2020.

NOTE 12: WARRANTS

A summary of outstanding warrants is included below:

	Warrants (Equity)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2021	4,426,900	\$ 4.62	2.83
Warrants issued	-	-	-
Warrants expired	(263,938)	5.76	-
Balance September 30, 2021	<u>4,162,962</u>	<u>\$ 4.56</u>	<u>1.95</u>

NOTE 13: STOCK-BASED COMPENSATION

A summary of outstanding options is included below:

Time Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.01 - \$3.00	1,525,000	8.66	\$ 2.52	508,333	\$ 2.52
\$3.01 - \$7.50	184,830	4.60	\$ 6.72	176,497	\$ 6.69
\$7.51+	103,979	3.70	11.74	99,187	\$ 11.89
	<u>1,813,809</u>	<u>7.97</u>	<u>\$ 3.48</u>	<u>784,017</u>	

Performance Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.01 - \$3.00	800,000	8.67	\$ 2.53	-	\$ -
	<u>800,000</u>	<u>8.67</u>	<u>\$ 2.53</u>	<u>-</u>	

Date/Activity	Time Vesting Options		Performance Vesting Options	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2020	1,813,809	\$ 3.48	800,000	\$ 2.53
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Balance, September 30, 2021	<u>1,813,809</u>	<u>3.48</u>	<u>800,000</u>	<u>\$ 2.53</u>

The weighted average remaining contractual life for options exercisable is 7.2 years as of September 30, 2021.

Valuation Information for Stock-Based Compensation

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

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

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

Risk-free interest rate	0.66%
Expected term	6.25 years
Expected price volatility	91.79%
Dividend yield	0%

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

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

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

The exercise price of the foregoing options is \$2.53 per share, the closing price of the Company's common stock on the date of issuance. The options were issued from the Plan. The fair value of the options on the grant date was \$1.87 and was determined using the Black-Scholes model. These values were calculated using the same weighted average assumptions as the time vesting options issued. Performance against the identified revenue and EBITDA targets will be assessed quarterly by the Company in order to determine whether any compensation expense should be recorded.

During the three months ended March 31, 2021, the Company deemed it probable that the Company would achieve the EBITDA target for Calendar Year 2021 and recorded catch-up compensation expense in the Consolidated Statement of Operations with respect to these awards of \$263 during the three months ended March 31, 2021. These awards have not yet vested and are subject to actual results for the full fiscal year 2021. Should this target not be achieved, amounts recorded as expense in the Condensed Consolidated Statement of Operations would be reversed. The Company recorded \$79 during the three months ended September 30, 2021 and anticipates recording \$79 in each subsequent quarter of 2021 related to the EBITDA target for Calendar Year 2020 and 2021 portion of these awards.

Stock Compensation Expense Information

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

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

Employee Awards

Compensation expense recognized for the issuance of stock options, inclusive of performance-restricted stock options, for the three and nine months ended September 30, 2021 of \$331 and \$1,177, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Compensation expense recognized for the issuance of stock options for the three and nine months ended September 30, 2020 of \$273 and \$442, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Amounts recorded include stock compensation expense for awards granted to directors of the Company in exchange for services at fair value.

As of September 30, 2021, there was approximately \$1,609 and \$1,078 of total unrecognized compensation expense related to unvested share-based awards with time vesting and performance vesting criteria, respectively. As of September 30, 2020, there was approximately \$2,617 and \$1,499 of total unrecognized compensation expense related to unvested share-based awards with time vesting and performance vesting criteria, respectively. Generally, expense related to the time vesting options will be recognized over the next two- and one-half years and will be adjusted for any future forfeitures as they occur. Compensation expense related to performance vesting options will be recognized if it becomes probable that the Company will achieve the identified performance metrics.

Non-Employee Awards

During the three and nine months ended September 30, 2021, the Company engaged certain consultants to perform services in exchange for Company common stock. Shares issued for services were calculated based on the ten (10) day volume weighted average price ("VWAP") for the last ten (10) days during the month of service provided. The Company recorded \$45 and \$85 in compensation expenses in exchange for issuance of 31,257 and 53,459 shares during the three and nine months ended September 30, 2021, respectively. \$15 of the compensation expenses were recorded as capitalized software.

NOTE 14: SIGNIFICANT CUSTOMERS/VENDORS

Significant Customers

We had one (1) and two (2) customers that in the aggregate accounted for 30.6% and 42.6% of accounts receivable as of September 30, 2021, and December 31, 2020, respectively.

We had two (2) and one (1) customer that accounted for 45.9% and 11.3% of revenue for the three months ended September 30, 2021, and 2020, respectively. We had two (2) and one (1) customer that accounted for 40.1% and 11.5% of revenue for the nine months ended September 30, 2021 and 2020, respectively.

Significant Vendors

We had two (2) vendors that accounted for 47.2% and 47.0% of outstanding accounts payable at September 30, 2021 and December 31, 2020, respectively.

NOTE 15: LEASES

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

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

<i>(in thousands)</i>	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Finance lease cost		
Amortization of right-of-use assets	\$ 4	\$ 17
Interest	-	2
Operating lease cost	236	512
Total lease cost	<u>\$ 240</u>	<u>\$ 531</u>
Weighted Average Remaining Lease Term		
Operating leases	3.1 years	3.2 years
Finance leases	-	0.9 years
Weighted Average Discount Rate		
Operating leases	10.0%	10.0%
Finance leases	-	14.0%

The following is a schedule, by years, of maturities of lease liabilities as of September 30, 2021:

<i>(in thousands)</i>	Operating Leases
The remainder of 2021	\$ 75
2022	298
2023	295
2024	85
Thereafter	<u>77</u>
Total undiscounted cash flows	830
Less imputed interest	<u>\$ (118)</u>
Present value of lease liabilities	<u>\$ 712</u>

Supplemental cash flow information related to leases are as follows:

<i>(in thousands)</i>	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases, net	\$ 184	\$ 512
Operating cash flows from finance leases	4	2
Financing cash flows from finance leases	(4)	17

NOTE 16: EMPLOYEE RETENTION CREDITS

The CARES Act provides an employee retention credit ("ERC") that is a refundable tax credit against certain employer taxes. On December 27, 2020, Congress enacted the Taxpayer Certainty and Disaster Tax Relief Act of 2020, which amended and extended ERC availability under Section 2301 of the CARES Act. Before the enactment of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, businesses who were provided SBA PPP Loans under the CARES Act were ineligible for the ERC. Following enactment of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, such businesses became retroactively eligible for the ERC.

As a result of the foregoing legislation, the Company is eligible to claim a refundable tax credit against the employer share of Social Security taxes equal to seventy percent (70%) of the qualified wages that the Company pays to employees between December 31, 2020 and September 30, 2021. Qualified wages are limited to \$10 per employee per calendar quarter in 2021 for a maximum ERC per employee of \$7 per calendar quarter in 2021.

As a result of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, the Company is now eligible to make ERC claims for each quarter in 2020 and 2021, subject to the other eligibility requirements.

The ERC was extended and expanded in March 2021 through December 31, 2021, as part of the American Rescue Plan Act of 2021 (“ARPA”). Under the CARES Act, the amount of credit was fifty percent (50%) of qualified wages paid to the employee plus the employer cost to provide health benefits. Under the Consolidated Appropriations Act of 2021, eligible employers can claim a refundable tax credit against the employer share of Social Security taxes equal to seventy percent (70%) of the qualified wages they pay to employees after December 31, 2020, through September 30, 2021. The ARPA allows employers to retain a seventy percent (70%) credit for qualified wages paid between July 1, 2021, and December 31, 2021, including the cost to provide health benefits.

The Company qualified for the ERC beginning on March 13, 2020 (the earliest eligibility date) through September 30, 2021 (the most recent assessment date).

During the three months ended September 30, 2021, the Company recorded an ERC totaling \$422 for credits earned for wages paid the third quarter of 2021. The credit for the third quarter of 2021 was claimed on the Company’s original Form 941. The Company has recorded these amounts as receivable within prepaid and other current assets within the Condensed Consolidated Balance Sheet as of September 30, 2021.

During the three months ended September 30, 2021, the \$422 of ERCs were included as a reduction in payroll taxes within the Condensed Consolidated Statement of Operations and allocated to the financial statement caption from which the employee taxes were originally incurred. As a result, the Company recorded a reduction in expenses of \$136, \$50, \$49, and \$186 in Cost of Goods – Services, Sales and Marketing Expenses, Research and Development Expenses, and General and Administrative Expenses, respectively, for the three months ended September 30, 2021.

The Company would qualify for an ERC for each remaining quarter during 2021 in which the Company experiences a “significant decline in gross receipts,” defined as quarterly gross receipts that are less than eighty percent (80%) of its gross receipts for the same calendar quarter in 2019.

NOTE 17: SUBSEQUENT EVENTS

On November 12, 2021, the Company and Reflect Systems, Inc., a Delaware corporation (“RSI”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) providing for the merger of RSI with a wholly owned subsidiary of the Company in exchange for the consideration described below (the “Merger”). RSI provides digital signage solutions, including software, strategic and media services to a wide range of companies across the retail, financial, hospitality and entertainment, healthcare, and employee communications industries in the North America.

Reflect offers digital signage platforms, including ReflectView, which delivers content to more than 75,000 devices. Through its strategic services, RSI assists its customers with designing, deploying and optimizing their digital signage networks, and through its media services, RSI assists customers with monetizing their digital advertising networks.

If the Merger is consummated, each outstanding Reflect share will be converted into the right to receive a portion of (i) \$18,667 in cash, subject to certain adjustments set forth in the Merger Agreement, (ii) 2,333,334 shares of Creative Realities common stock, par value \$0.01 per share, referred to herein as the “Creative Realities shares,” and (iii) contingent cash payable on or after the three-year anniversary of the effective time of the merger, in an amount by which the closing price of the Creative Realities shares on such anniversary is than \$6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, \$7.20 per share, in each case multiplied by the amount of Creative Realities shares held by the Reflect stockholders on the three-year anniversary of the effective time of the Merger (subject to a possible six-month extension period).

At the closing of the Merger (the “Closing”), the Merger Agreement requires Creative Realities to adopt a Retention Plan in substantially the form attached as Exhibit C to the Merger Agreement, pursuant to which key members of Reflect’s management team will be eligible to receive an aggregate of \$1,333,333 in cash, which will be paid 50% at the Closing, and subject to continuous employment with Reflect, 25% on the one-year anniversary of Closing and 25% on the two-year anniversary of the Closing. The future cash payments due on the one-year and two-year anniversaries of the Closing will be deposited into a “rabbi trust” at Closing. The Retention Plan also will require Creative Realities to issue Creative Realities shares having an aggregate value of \$666,667 to the plan participants as follows: 50% of the value of such shares will be issued at the Closing, and subject to continuous employment with Reflect, 25% of the value of such shares will be issued on the one-year anniversary of Closing and the remaining 25% of the value of such shares will be issued on the two-year anniversary of the Closing. The shares to be issued will be determined based on dividing the value of shares issuable on such date by the trailing 10-day volume weighted average price (VWAP) of the shares as of the such date. The Merger is subject to standard Closing conditions, including the approval of RSI’s stockholders, the approval of the listing of additional shares of CRI common stock to be issued to RSI’s stockholders in the Merger, required federal and state regulatory approvals and other customary Closing conditions. We expect the merger to close in the first quarter of 2022.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words “anticipates,” “believes,” “expects,” “intends,” “plans,” “estimates,” “projects,” “should,” “may,” “propose,” and similar expressions (or the negative versions of such words or expressions), as they relate to us, our management or the Merger, are intended to identify such forward-looking statements.

For example, forward-looking statements include any statements regarding the strategies, prospects, plans, expectations or objectives of management of Creative Realities or Reflect for future operations of the combined company, the risk that the conditions to the closing of the proposed Merger are not satisfied, including the failure to timely or at all obtain approval of the Creative Realities Proposals and Reflect Proposal; uncertainties as to the timing of the consummation of the proposed Merger and the ability of each of Creative Realities and Reflect to consummate the proposed Merger; risks related to Creative Realities’ ability to correctly estimate its operating expenses and expenses associated with the proposed Merger, including any debt expenses related to any debt financing obtained in advanced of the closing of the proposed Merger; Creative Realities’ ability to obtaining any financing necessary to pay the \$18,666,667 cash portion of the Merger consideration and fund the \$1,333,333 cash portion of the Reflect Retention Plan at the closing of the Merger, including the terms of any debt or equity financing; risks related to the changes in market price of the Creative Realities shares of common stock; competitive responses to the proposed Merger; unexpected costs, charges or expenses resulting from the proposed Merger; the effect of the COVID-19 pandemic and the steps taken by governments and customers of Creative Realities and Reflect to address the pandemic, including business closures; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the proposed Merger; and legislative, regulatory, political and economic developments. The foregoing review of important factors that could cause actual events to differ from expectations should not be construed as exhaustive and should be read in conjunction with statements that are included herein and elsewhere.

These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated, and many of which are beyond our control. Factors that could cause actual results to differ materially from those anticipated are set forth under the caption “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2020, Form 10-Q for the quarter ended March 31, 2021, and preliminary joint proxy statement/prospectus included in the Form S-4 registration statement, as filed with the Securities and Exchange Commission on March 10, 2021 May 17, 2021, and November 12, 2021 respectively.

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

Overview

Creative Realities, Inc. is a Minnesota corporation that provides innovative digital marketing technology solutions to a broad range of companies, individual brands, enterprises, and organizations throughout the United States and in certain international markets. We have expertise in a broad range of existing and emerging digital marketing technologies across a variety of strategic 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 under our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation (“Allure”), and Creative Realities Canada, Inc., a Canadian corporation. Our other wholly owned subsidiaries, Creative Realities, LLC, a Delaware limited liability company, and ConeXus World Global, LLC, a Kentucky limited liability company, are effectively dormant.

We primarily generate revenue in our 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.

Recent Developments

Entry into Merger Agreement

On November 12, 2021, Creative Realities and Reflect Systems, Inc., or "Reflect," entered into an Agreement and Plan of Merger, or the "Merger Agreement," pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, or "Merger Sub," will merge with and into Reflect, with Reflect surviving as a wholly owned subsidiary of Creative Realities, and the surviving company of the merger, which transaction is referred to herein as the "Merger."

Reflect provides digital signage solutions, including software, strategic and media services to a wide range of companies across the retail, financial, hospitality and entertainment, healthcare, and employee communications industries in North America. Reflect offers digital signage platforms, including ReflectView, a platform used by companies to power hundreds of thousands of active digital displays. Through its strategic services, Reflect assists its customers with designing, deploying and optimizing their digital signage networks, and through its media services, Reflect assists customers with monetizing their digital advertising networks.

Subject to the terms and conditions of the Merger Agreement, upon the closing of the Merger, Reflect stockholders as of the effective time of the Merger collectively will receive from Creative Realities, in the aggregate the following Merger consideration: (i) \$18,666,667 payable in cash, (ii) 2,333,334 shares of common stock of Creative Realities (valued based on an issuance price of \$2 per share) (the "CREX Shares"), and (iii) supplemental cash payments (the "Guaranteed Consideration"), if any, payable on or after the three-year anniversary of the effective time of the Merger (subject to the Extension Option described below, the "Guarantee Date"), in an amount by which the value of the CREX Shares on such anniversary is less than \$6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than \$7.20 per share (such applicable amount, the "Guaranteed Price"), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below), subject to the terms of the Merger Agreement.

Creative Realities may exercise an extension option (the "Extension Option") to extend the Guarantee Date from the three-year anniversary of the Closing Date to six (6) months thereafter if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) Creative Realities provides written notice of its election to exercise the Extension Option at least 10 days prior to the three-year anniversary of the Closing. The "Extension Threshold Price" means the average closing price per share of Creative Realities Shares as reported on the Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending fifteen (15) days prior to the three-year anniversary of the Closing Date. If the Extension Threshold Price is less than 80% of the Guaranteed Price, then the Guaranteed Price will be increased by \$1.00 per share.

Under the terms of the Merger Agreement, Creative Realities will adopt a retention bonus plan for key Reflect employees that will continue their services after the effective time of the Merger in substantially the form attached as Exhibit C to the Merger Agreement (the "Retention Bonus Plan"), pursuant to which key members of Reflect's management team will be eligible to receive an aggregate of \$1,333,333 in cash, which will be paid 50% at the closing of the Merger, and subject to continuous employment with Reflect, 25% on the one-year anniversary of the closing of the Merger and 25% on the two-year anniversary of the closing of the Merger. The future cash payments due on the one-year and two-year anniversaries of the closing of the Merger will be deposited into a "rabbi" trust at the closing of the Merger. The Reflect Retention Plan also will require Creative Realities to issue Creative Realities Shares having an aggregate value of \$666,667 to the plan participants as follows: 50% of the value of such shares will be issued at the closing of the Merger at the issuance price of \$2.00 per share. Subject to continuous employment with Reflect, 25% of the value of such shares will be issued on the one-year anniversary of the closing of the Merger and the remaining 25% of the value of such shares will be issued on the two-year anniversary of the closing of the Merger. The shares to be issued on the one and two year anniversaries of the Merger will be determined based on dividing the value of shares issuable on such date by the trailing 10-day volume weighted average price (VWAP) of the shares as of the such vesting date as reported on the Nasdaq Capital Market.

The Merger Agreement contains customary closing conditions. Among these conditions, the Merger Agreement requires that the stockholders of Reflect approve the Merger and other related proposals (the "Reflect Proposals"), and that the shareholders of Creative Realities approve the issuance of the CREX Shares Consideration, and the terms of the Retention Bonus Plan and other related proposals (the "Creative Realities Proposals"). The parties intend to seek stockholder approvals of the Creative Realities Proposals and Reflect Proposal via a joint proxy statement/prospectus on Form S-4 (the "Proxy Statement") with the Securities Exchange Commission (the "SEC"), which will include audited annual and unaudited interim historical financial information for the operations comprising the business of Reflect, together with pro forma financial information, and such other information as required by applicable SEC rules.

The Merger Agreement contains customary representations, warranties, covenants, escrow and indemnification provisions. At closing of the Merger, \$2.5 million of the cash Merger consideration will be deposited into a one-year escrow account as the sole remedy to secure the indemnification obligations of Reflect stockholders; provided that claims related to breaches of certain representations, warranties and covenants will not be limited by the escrow account and will be limited by the Merger consideration paid to such stockholders. Losses must exceed \$200,000 before Reflect stockholders would be liable for any indemnification obligations, in which event Reflect stockholders would be responsible for the amount of all losses above such amount. Creative Realities may offset from the Guaranteed Consideration the amount of losses that Creative Realities is finally determined to be entitled under the indemnification provisions of the Merger Agreement.

An additional \$250,000 of the cash Merger consideration will be deposited into an escrow account to secure any required payments by the Reflect stockholders as part of the post-closing purchase price adjustments for closing date net working capital set forth in the Merger Agreement.

The Merger Agreement contains certain termination rights for both Creative Realities and Reflect, including rights to terminate the Merger Agreement in the event of a breach by the other party (which right includes the right to recover out-of-pocket costs incurred by the non-breaching party) and limited rights permitting Creative Realities to terminate the Merger Agreement upon the failure to obtain sufficient financing to fund the cash portion of the Merger consideration, and certain adverse developments in the Reflect's business.

We expect the merger to close in the first quarter of 2022.

For a discussion of the factors that may cause Creative Realities', Reflect's and the combined company's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied in such forward-looking statements, and for a discussion of risk associated with the ability of Creative Realities and Reflect to complete the Merger and the effect of the Merger on the business of Creative Realities, Reflect and the combined company, see "Risk Factors" set forth in the preliminary Proxy Statement filed with the SEC on November 12, 2021. Readers are also urged to carefully review and consider the various disclosures we make in amendments to the Proxy Statement filed with the SEC and that we will mail to our shareholders. In addition, additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in reports filed with the SEC by Creative Realities. There can be no assurance that the proposed Merger will be completed, or if it is completed, that it will be consummated within the anticipated time period or that the expected benefits of the proposed Merger will be realized.

COVID-19 Pandemic

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

As a result of the COVID-19 pandemic, we experienced rapid and immediate deterioration in our business in each of our key vertical markets. The elective and forced closures of, and implementation of social distancing policies on, businesses across the United States resulted in materially reduced demand and customer budgets for our services throughout 2020 and into 2021, as our customers purchase our products and services to engage with their end customers in a physical space through digital technology, particularly in our theater, sports arena and large entertainment markets. Those conditions resulted in downward revisions of our internal forecasts on current and future projected earnings and cash flows, resulting in a non-cash impairment loss of \$10,646 recorded during the first quarter of 2020 and reduced liquidity as described below.

While we have experienced an intense curtail in demand, our long-term outlook for the digital signage industry remains strong and we believe that the COVID-19 pandemic has accelerated the long-term adoption of digital solutions.

Semiconductor Chip Shortage

The Company's suppliers of digital displays, the primary hardware component in the Company's digital systems, have informed the Company that, due to semiconductor chip shortages in the industry, such suppliers expect delays and potentially increased costs for the Company to obtain digital displays necessary to fulfill and install the Company's digital solutions. Historically, such digital displays have been readily available for purchase and delivery, to be purchased by the Company from distributors from such distributor's existing inventory. Such delays will likely result in a longer sales cycles and prolonged periods in which the Company will be able to recognize revenues compared to historical time periods. The increased costs for such displays may also reduce the margins in which the Company has received on account of the purchase and installation of such displays as part the Company's digital signage product offerings. Although we believe that such shortage will be alleviated during the first half of 2022, the Company is unable to confirm how long such delays may exist, the effect such delays and increased demand may have on the cost to procure such digital screens, or the adverse impacts on our financial results.

Our Sources of Revenue

We primarily 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 *Summary of Significant Accounting Policies* of the Company's Condensed Consolidated Financial Statements included elsewhere in this filing. The Company's Condensed 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Our actual results could differ from those estimates.

Results of Operations

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

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

The tables presented below compare our results of operations 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 September 30,		Change	
	2021	2020	\$	%
Sales	\$ 4,753	\$ 5,107	\$ (354)	-7%
Cost of sales	2,406	2,663	(257)	-10%
Gross profit	2,347	2,444	(97)	-4%
Sales and marketing expenses	330	411	(81)	-20%
Research and development expenses	226	229	(3)	-1%
General and administrative expenses	1,848	1,849	(1)	0%
Depreciation and amortization expense	347	377	(30)	-8%
Total operating expenses	2,751	2,866	(115)	-4%
Operating (loss)	(404)	(422)	18	-4%
Other income/(expenses):				
Interest expense	(186)	(265)	79	-30%
Gain on settlement of debt	256	114	142	-125%
Other income/(expense)	(8)	(13)	5	-38%
Total other income/(expense)	62	(164)	226	-138%
Net income/(loss) before income taxes	(342)	(586)	244	-42%
Provision from income taxes	(1)	1	(2)	-200%
Net income/(loss)	\$ (343)	\$ (585)	242	-41%

Sales

Sales decreased by \$354, or 7%, during the three months ended September 30, 2021 as compared to the same period in 2020 primarily driven by a reduction of \$635 in hardware sales resulting from limited supply chain availability of semiconductor chips delaying the delivery of digital displays and media players to the Company, combined with a reduction in Safe Space Solutions hardware in 2021 following wide distribution of the COVID-19 vaccine. These reductions were partially offset by an increase in installation activity related to a continued customer rollout of previously purchased hardware. The supply disruption for digital displays prevented the Company from delivery of hardware and execution of installation activities during the quarter. As of September 30, 2021, the Company had customer purchase orders for equipment and installation activities in excess of \$1,200 which were delayed as a result of product availability. The Company expects to experience continued disruptions and delays related to fulfillment of inventory purchases from vendors throughout the remainder of 2021, which may impact our results for the remainder of 2021. We expect a full recovery in the timely availability of equipment during the first half of 2022. During the three months ended September 30, 2021 and 2020, of our Safe Space Solutions products and services (inclusive of the portion of revenue recognized during the three months ended September 30, 2021 related to annual contracts sold in prior periods), were \$182 and \$2,067, respectively.

Gross Profit

Gross profit decreased \$97, or 4% during the three months ended September 30, 2021 as compared to the same period in 2020 driven by the decrease in sales but offset by an increase in gross profit margin. Gross profit margin increased to 49.4% in 2021 from 47.9% during the same period in 2020 as a result of an increase in managed services as a percentage of total revenue during the period and headcount reductions in personnel servicing customers as a result of cost reductions executed throughout 2020.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses decreased by \$81, or 20%, in 2021 compared to 2020. The decrease was driven by \$50 of Employee Retention Credits related to the retention and payment of salaries to sales personnel during the period. The remaining reduction was the result of reduced commissions and bonuses.

Research and Development Expenses

Research and development expenses generally include personnel and development tools costs associated with the continued development of the Company's content management systems and other related application development. Research and development decreased by \$3, or 1%, in 2021 compared to 2020. The decrease was driven by \$49 of Employee Retention Credits related to the retention and payment of salaries to sales personnel throughout 2020 and the three months ended September 30, 2021, partially offset by increased headcount as we began re-investment into our content management platforms.

General and Administrative Expenses

Total general and administrative expenses were flat for the three months ended September 30, 2021 as compared to the same period in 2020. There was a decrease of \$186 from Employee Retention Credits related to the retention and payment of salaries to sales personnel during the period, offset by \$95 in expenses related to one-time deal and transaction expenses and an increase of \$83 in non-cash stock compensation expenses from employee stock option awards with time and performance-based vesting.

Depreciation and Amortization Expenses

Depreciation and amortization expenses decreased by \$30, or 8%, in 2021 compared to 2020. This decrease was the result of a trade name asset becoming fully amortized during 2020, while no amortization was recorded during the three months ended September 30, 2021.

Interest Expense

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

Gain on Settlement of Debt

During the three months ended September 30, 2021 the statute of limitations passed related to the remaining liability on a lease abandoned by the Company in 2015, resulting in a gain of \$256.

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

The tables presented below compare our results of operations 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 Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Sales	\$ 13,034	\$ 12,467	\$ 567	5%
Cost of sales	6,578	6,599	(21)	0%
Gross profit	6,456	5,868	588	10%
Sales and marketing expenses	834	1,209	(375)	-31%
Research and development expenses	455	787	(332)	-42%
General and administrative expenses	5,623	6,340	(717)	-11%
Bad debt (recovery) / expense	(463)	830	(1,293)	-156%
Depreciation and amortization expense	1,035	1,123	(88)	-8%
Goodwill impairment	-	10,646	(10,646)	-100%
Total operating expenses	7,484	20,935	(13,451)	-64%
Operating (loss)	(1,028)	(15,067)	14,039	-93%
Other income / (expenses):				
Interest expense	(617)	(752)	135	-18%
Change in fair value of Convertible Loan	166	(702)	868	-124%
Gain on settlement of debt	3,449	155	3,294	2,125%
Loss on disposal of assets	-	(13)	13	-100%
Other income/(expense)	(7)	(13)	6	-46%
Total other income/(expense)	2,991	(1,312)	4,303	-328%
Net income/(loss) before income taxes	1,963	(16,379)	18,342	-112%
Provision from income taxes	(9)	152	(161)	-106%
Net income/(loss)	\$ 1,954	\$ (16,227)	18,181	-112%

Sales

Sales increased by \$567, or 5%, in the nine months ended September 30, 2021 as compared to the same period in 2020 driven by an increase of \$509 in hardware sales as compared to the same period in 2020, despite a decrease of \$1,385 in the sale of our Safe Space Solutions products, which launched in April 2020. Core digital signage sales expanded by \$976 in the period despite constraints from further growth due to limited supply chain availability of semiconductor chips delaying the delivery of digital displays and media players to the Company. The supply disruption for digital displays prevented the Company from delivery of hardware and execution of installation activities during the quarter. As of September 30, 2021, the Company had customer purchase orders for equipment and installation activities in excess of \$1,200 which were delayed as a result of product availability. The Company expects to experience continued disruptions and delays related to fulfillment of inventory purchases from vendors throughout the remainder of 2021, which may impact our results for the remainder of 2021. We expect a full recovery in the timely availability of equipment during the first half of 2022.

Gross Profit

Gross profit increased \$588, or 10%, during the nine months ended September 30, 2021 as compared to the same period in 2020, driven by both an increase in sales, which contributed \$322 of incremental gross profit on a constant gross profit margin basis, and an increase in gross profit margin, which contributed \$266 of incremental gross profit. Gross profit margin increased to 49.5% from 47.1% driven primarily by increased hardware margins driven by increased purchasing power with distributors as our purchases of digital displays have increased.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses decreased by \$375, or 31%, in 2021 compared to 2020. The decrease was driven by \$232 of Employee Retention Credits related to the retention and payment of salaries to sales personnel throughout 2020 and the nine months ended September 30, 2021. The remaining reduction was the result of reduced personnel costs, partially offset by an increase of \$78 on trade show activity and related travel costs following a return to participation in industry trade shows and events after the elimination of such costs in 2020 as a result of the COVID-19 pandemic.

Research and Development Expenses

Research and development expenses generally include personnel and development tools costs associated with the continued development of the Company's content management systems and other related application development. Research and development decreased by \$332, or 44%, in 2021 compared to 2020. The decrease was driven by \$196 of Employee Retention Credits related to the retention and payment of salaries to sales personnel throughout 2020 and the nine months ended September 30, 2021. The remaining reduction was the result of reduced personnel costs following the reduction of personnel and salary reductions implemented throughout 2020.

General and Administrative Expenses

Total general and administrative expenses decreased by \$717, or 11%, in 2021 compared to 2020. The decrease was driven by \$694 of Employee Retention Credits related to the retention and payment of salaries to sales personnel throughout 2020 and the nine months ended September 30, 2021. Excluding the consideration of those Employee Retention Credits recorded in the period, total general and administrative expenses decreased \$23, or 0%, during the nine months ended September 30, 2021 as compared to the same period in 2020. The comparable year-over-year expenses included reductions of (a) \$157 in non-ERC-related personnel costs, including salaries, benefits, and travel-related expenses, (b) \$280 in rent expense following closure, downsizing, or restructuring of four leases during 2020, and (c) reductions in legal expenses of \$255 following settlement of the Amended and Restated Seller Note, partially offset by an increase in stock compensation amortization expense of \$849 related to incremental employee and directors' awards granted during 2020 which are being amortized over a nineteen (19) month remaining vesting period based on the grant date fair value calculated using the Black Scholes method. Personnel costs were reduced following completion of a reduction-in-force and salary reductions for remaining personnel in March 2020.

Bad Debt

Expenses related to the Company's allowance for bad debts decreased by \$1,293, or 156%, for the nine months ended September 30, 2021 compared to 2020. This decrease was primarily driven by a cash recovery of \$555 related to a customer bankruptcy for which the Company previously recorded a reserve during the three months ended June 30, 2020.

Goodwill impairment

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

Depreciation and Amortization Expenses

Depreciation and amortization expenses decreased by \$88, or 8%, in 2021 compared to 2020. This decrease was the result of a trade name asset becoming fully amortized during 2020, while no amortization was recorded during the nine months ended September 30, 2021.

Interest Expense; Change in fair value of Convertible Loan

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

We updated our fair value analysis of the Convertible Loan quarterly, resulting in recognition of a \$166 gain and a \$702 loss during the nine months ended September 30, 2021 and 2020, respectively. See Note 8 *Loans Payable* to the Condensed Consolidated Financial Statements for a discussion of the Company's Convertible Loan.

Gain on Settlement of Debt

On January 11, 2021, the Company received a notice from Old National Bank regarding forgiveness of the loan in the principal amount of \$1,552 (the "PPP Loan") that was made pursuant to the Small Business Administration Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act of 2020. According to such notice, the full principal amount of the PPP Loan and the accrued interest have been forgiven, resulting in a gain of \$1,552 during the three months ended March 31, 2021.

On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, \$100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Amended and Restated Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements.

As a result of this settlement, the full principal amount of the Amended and Restated Seller Note and the accrued interest have been eliminated, resulting in a gain in the Condensed Consolidated Financial statements of \$1,624, representing \$1,538 related to the Amended and Restated Seller Note and \$86 of related interest thereon, during the three months ended June 30, 2021.

During the three months ended September 30, 2021 the statute of limitations passed related to the remaining liability on a lease abandoned by the Company in 2015, resulting in a gain of \$256.

Summary Unaudited Quarterly Financial Information

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

Quarters ended	Quarters Ended				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Net sales	\$ 4,753	\$ 3,277	\$ 5,004	\$ 4,990	\$ 5,107
Cost of sales	2,406	1,402	2,770	2,737	2,663
Gross profit	2,347	1,875	2,234	2,253	2,444
Operating expenses, excluding depreciation and amortization	2,404	1,942	2,103	2,886	2,489
Depreciation/amortization	347	344	344	351	377
Operating income (loss)	(404)	(411)	(213)	(1,002)	(422)
Other expenses/(income)	(62)	1,443	(1,486)	(379)	164
Income tax expense/(benefit)	1	7	1	(6)	(1)
Net income (loss)	<u>(343)</u>	<u>\$ 1,025</u>	<u>\$ 1,272</u>	<u>\$ (617)</u>	<u>\$ (585)</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 the Company in evaluating our results of operations on an ongoing basis. We believe that earnings before interest, taxes, depreciation, and amortization ("EBITDA") is a performance measure and not a liquidity measure, and therefore a reconciliation between net loss/income and EBITDA and Adjusted EBITDA, which is calculated by removing the impact of non-recurring and primarily non-cash transactions from EBITDA, has been provided. Neither EBITDA nor Adjusted EBITDA should 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, neither EBITDA nor Adjusted EBITDA takes into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. We do not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

Quarters ended	Quarters Ended				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
GAAP net income (loss)	\$ (343)	\$ 1,025	\$ 1,272	\$ (617)	\$ (585)
Interest expense:					
Amortization of debt discount	29	29	72	85	85
Other interest, net	158	153	177	186	179
Depreciation/amortization:					
Amortization of intangible assets	139	139	140	139	161
Amortization of finance lease assets	-	-	4	3	5
Amortization of share-based awards	329	329	512	250	248
Depreciation of property, equipment & software	208	205	200	209	212
Income tax expense/(benefit)	1	7	1	(6)	(1)
EBITDA	<u>\$ 521</u>	<u>\$ 1,887</u>	<u>\$ 2,378</u>	<u>\$ 249</u>	<u>\$ 304</u>
Adjustments					
Change in fair value of Special Loan	-	-	(166)	(609)	-
Gain on settlement of obligations	(256)	(1,628)	(1,565)	(54)	(114)
Loss on disposal of assets	-	-	-	-	13
Loss on lease termination	-	-	-	18	-
Stock-based compensation – Director grants	27	27	27	27	25
Adjusted EBITDA	<u>\$ 292</u>	<u>\$ 286</u>	<u>\$ 674</u>	<u>\$ (369)</u>	<u>\$ 228</u>

Liquidity and Capital Resources

See Note 1 *Nature of Organization and Operations* to the accompanying Condensed Consolidated Financial Statements for a detailed discussion of liquidity and financial resources.

Operating Activities

The cash flows used in operating activities were (\$367) and (\$4,110) for the nine months ended September 30, 2021 and 2020, respectively. We produced net income during the nine months ended September 30, 2021 of \$1,954, which was primarily reduced via addback of the gain on forgiveness of the Company's PPP Loan in the amount of \$1,552 and gain on the settlement of obligations in the amount of \$1,624, representing \$1,538 related to the Seller Note and \$86 of related interest thereon, partially offset by an addback for depreciation and amortization, including amortization of debt discount and stock based compensation, of \$2,417. The change in cash flows used in operations year-over-year was driven primarily by the current year gains on settlement of the Seller Note and forgiveness of the PPP loan, combined with a reduction in prepaid assets.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2021 was \$432 compared to \$559 during the same period in 2020. The use of cash in both periods represents payments made for capital assets, primarily related to the capitalization of both internal and external software development. We currently do not have any material commitments for capital expenditures as of September 30, 2021; however, we anticipate an increase in our capital expenditures of approximately \$430 in excess of our historical trends throughout the balance of 2021 to maintain and enhance the software platform for our customers and to enhance revenue generating activities through the platform.

Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2021 and 2020 were \$1,745 and \$2,990, respectively. On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor for the issuance and sale of the Company's common stock. The net proceeds from the Offering after paying estimated offering expenses were approximately \$1,849. These proceeds were partially offset by the settlement payment of \$100 on the Seller Note. The 2020 proceeds were driven by the Company's receipt of a \$1,552 Paycheck Protection Program loan, execution of sales via an at-the-market offering of \$1,335, and the exercise of 27,600 warrants.

Off-Balance Sheet Arrangements

During the three and nine months ended September 30, 2021, we did not engage in any off-balance sheet arrangements set forth in Item 303(a)(4) of Regulation S-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2021, and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item; however, the discussion of our business and operations should be read together with the Risk Factors set forth in our Annual Report on Form 10-K filed with the SEC on March 10, 2021 and our Quarterly Report on Form 10-Q filed with the SEC on May 17, 2021. Such risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flow, strategies or prospects in a material and adverse manner.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Earnings Release

On November 15, 2021, the Company issued a press release announcing its financial condition and results of operations for the three and nine months ended September 30, 2021. A copy of the press release is furnished as Exhibit 99.1 and is incorporated by reference into this Item 5 in lieu of separately furnishing such press release under Item 2.02 of Form 8-K. This disclosure, including Exhibit 99.1 hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 6. Exhibits

Exhibit No.	Description
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2.1	Agreement and Plan of Merger dated November 12, 2021 (incorporated by reference to Exhibit 2.2 of the Company’s registration statement on Form S-4 filed November 12, 2021)
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
99.1	Press release dated November 15, 2021
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 15, 2021

Creative Realities, Inc.

By /s/ Richard Mills
Richard Mills
Chief Executive Officer

By /s/ Will Logan
Will Logan
Chief Financial Officer

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

I, Richard Mills, certify that:

1. I have reviewed this annual report on Form 10-Q for the three and nine months ended September 30, 2021, of Creative Realities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 15, 2021

By: /s/ Richard Mills

Richard Mills

Chief Executive Officer

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

I, Will Logan, certify that:

1. I have reviewed this annual report on Form 10-Q for the three and nine months ended September 30, 2021, of Creative Realities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 15, 2021

By: /s/ Will Logan

Will Logan

Chief Financial Officer

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

In connection with the Annual Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and nine months ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: November 15, 2021

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

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

In connection with the Annual Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and nine months ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Will Logan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: November 15, 2021

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

FOR IMMEDIATE RELEASE**Creative Realities Reports Third Quarter 2021 Results***Comments on anticipated merger with Reflect Systems, Inc.*

LOUISVILLE, KY – November 15, 2021 – Creative Realities, Inc. (“Creative Realities,” “CRI,” or the “Company”) (NASDAQ: CREX, CREXW), a leading provider of digital marketing solutions, announced its financial results for the three- and nine-months ended September 30, 2021.

Rick Mills, Chief Executive Officer, commented “During the third quarter of 2021, we saw demand for our core digital signage offerings begin to approach pre-pandemic levels. Revenues from our core digital signage products and services increased \$1.5 million, or approximately 50%, versus the same period in 2020. Throughout 2021 we have been engaged in customer conversations which were challenged by a lack of customer budget allocation for the 2021 calendar year as a reaction to the COVID-19 pandemic. As many of our current and prospective customers enter into the 2022 budget cycle, we are witnessing a significant expansion in both customer marketing and IT budgets with respect to the allocation of funds for digital transformation and signage projects. We are engaging in meaningful conversations that we believe will translate into a return to strong top-line growth beginning in the fourth quarter and continuing throughout 2022.”

“Despite facing continued disruptions in delivering and executing sold engagements due to limited supply chain availability of semiconductor chips, which has delayed the delivery of digital displays to the Company, we have received high praise from customers and vendor partners for our consistent and transparent communications which have further built trust and engagement. While we have seen a significant increase in market activity and remain bullish on a number of opportunities as we move into 2022, we expect to experience continued disruptions and delays related to fulfillment of inventory purchases from vendors and the associated services into the first half of 2022. Despite these industry challenges, specifically the lack of availability of displays, I am proud of our ability to generate positive EBITDA for the fifth consecutive quarter.”

“Beyond the current financial results, I could not be more excited about the opportunity to join forces with Reflect Systems, Inc., which we announced last week. Reflect has an incredible track record for growing annual recurring revenues via software subscriptions to its content management system. In addition, it brings CRI a tremendous ADTECH platform (AdLogic) which we will leverage to support the strong growth continuing in the digital-out-of-home advertising industry. The combined company becomes a key player for enterprise customers in the digital signage industry. By fully integrating our solutions and business operations, we can bring to bear the most competitive product and service offerings available for the digital signage market, including the potential for integrated programmatic advertising solutions. We expect the merger to close in the first quarter of 2022.”

Third Quarter Financial Update*Revenue, gross profit, and gross margin:*

For the three months ended September 30, 2021 as compared to the same period in the prior year:

- Revenues were \$4.8 million, representing a decrease of \$0.4 million, or 7%, as compared to the same period in 2020 despite a reduction in revenues generated from the sale of our Safe Space Solutions products and services of \$1.9 million. Revenues generated from our core digital signage products and services increased \$1.5 million, or 50%, for the three months ended September 30, 2021 as compared to the same period in 2020.
 - Hardware revenues were \$2.2 million in 2021, a decrease of \$0.6 million, or 21%, as compared to the prior year, driven by (1) continued supply chain disruptions related to semiconductor chips delaying the delivery of digital displays and media players to the Company, and (2) reduced revenues from the sale of our Safe Space Solutions hardware of \$1.9 million.
-

The supply disruption for digital displays prevented the Company from delivery of hardware and execution of installation activities during the quarter. As of September 30, 2021, the Company had customer purchase orders for equipment and installation activities in excess of \$1.2 million which were delayed as a result of product unavailability. The Company expects to experience continued disruptions and delays related to fulfillment of inventory purchases from vendors throughout the remainder of 2021; however, the Company currently anticipates those disruptions will be resolved in the first half of 2022.

- Services and other revenues were \$2.5 million in 2021, an increase of \$0.3 million, or 13%, as compared to 2020 driven by increases in both installation (\$0.3 million) and managed services (\$0.1 million) revenue. Managed services revenue, which includes both software-as-a-service (“SaaS”) and help desk technical subscription services for our traditional digital signage and Safe Space Solutions product offerings, were \$1.4 million in 2021 as compared to \$1.3 million in 2020 as digital signage subscription revenue began to rebuild following (1) customer reopening activities, and (2) the continued expansion in the number of devices managed by the Company generating such revenues.
- Gross profit decreased by \$0.1 million, or 4%, during the three months ended September 30, 2021 as compared to the same period in 2020 driven by a reduction in revenue but offset by an increase in gross profit margin. Gross profit margin increased to 49.4% in 2021 from 47.9% during the same period in 2020 as a result of improved mix and from increasing managed services revenue.

Operating expenses:

For the three months ended September 30, 2021 as compared to the same period in the prior year:

- Sales and marketing expenses decreased by \$0.1 million, or 20%, having benefited by approximately \$0.1 million in the current period from Employee Retention Credits (“ERC”) recognized during the three months ended September 30, 2021.
- Research and development expenses were flat in 2021 as compared to 2020.
- General and administrative expenses were flat in 2021 as compared to 2020. General and administrative expenses included a benefit of \$0.2 million in the three months ended September 30, 2021, which was offset by an increase of \$0.1 million in non-cash stock compensation expenses.

Operating loss, net loss, and EBITDA:

For the three months ended September 30, 2021 as compared to the same period in the prior year:

- Operating loss was \$0.4 million in both 2021 and 2020, reducing by approximately 4% in 2021 and compared to 2020, which included a benefit of a \$0.4 million of employee retention credit (described below) recorded in the three months ended September 30, 2021, partially offset by an increase of \$0.1 million in non-cash share-based compensation expenses as a result of probable vesting of performance-based option awards.
- Net loss was \$0.3 million in 2021 as compared to net loss of \$0.6 million in 2020, representing a reduction in the net loss of 41%.
- EBITDA was \$0.5 million in 2021 as compared to EBITDA of \$0.3 million in 2020. Adjusted EBITDA was \$0.3 million in 2021, compared to an Adjusted EBITDA of \$0.2 million in 2020. See below for a description of these non-GAAP financial measures and reconciliation to our net loss.

Other material transactions during the three months ended June 30, 2021:

- Employee Retention Credits: The CARES Act provided an employee retention credit (“ERC”) that is a refundable tax credit against certain employer taxes. The Company qualified for the ERC beginning on March 13, 2020 (the earliest eligibility date) through September 30, 2021 (the most recent assessment date). During the three months ended September 30, 2021, the Company recorded an ERC totaling \$0.4 million which was included as a reduction in payroll taxes within the Condensed Consolidated Statement of Operations and allocated to the financial statement caption from which the employee taxes were originally incurred.
- Settlement of Obligations: In September 2021 the statute of limitations expired with respect to the possibility of a claim against the Company related to abandonment of a legacy lease in 2015. The Company recorded a gain on settlement of obligations of approximately \$0.3 million during the three months ended September 30, 2021.

Conference Call Details

The Company will host a webinar to review the results and provide additional commentary about the Company's recent performance, which is scheduled for Tuesday, November 16, 2021 at 9:00 am Eastern Time.

Prior to the call, participants should register at <https://bit.ly/crlearnings2021Q3>. Once registered, participants can use the weblink provided in the registration email to listen to and view prepared materials via live webcast. An archived edition of the conference call will also be posted on our website at www.cri.com later that same day and will remain available to interested parties via the same link for one year.

About Creative Realities, Inc.

Creative Realities helps clients use the latest omnichannel technologies to inspire better customer experiences. CRI designs, develops and deploys consumer experiences for high-end enterprise level networks, and is actively providing recurring SaaS and support services across diverse vertical markets, including but not limited to Automotive, Advertising Networks, Apparel & Accessories, Convenience Stores, Foodservice/QSR, Gaming, Theater, and Stadium Venues. The Company has operations across North America with active installations in more than 10 countries. On November 12, 2021, the Company entered into a Merger Agreement with Reflect Systems, Inc. ("Reflect") and other parties thereto, pursuant to which a wholly owned subsidiary of the Company will merge with and into Reflect, and thereafter Reflect will be a wholly-owned subsidiary of the Company (the "Merger").

About Reflect

Reflect provides powerful, cost-effective digital signage platforms and solutions, helping organizations to create compelling experiences that engage staff and keep customers coming back for more. Reflect supplies everything brands need, including strategy, creative services, robust content management and ad trafficking systems, and media sales, all backed by the market leading ReflectView and AdLogic software platforms.

Use of Non-GAAP Measures

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

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

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

Cautionary Note on Forward-Looking Statements

This press release contains certain statements that are deemed "forward-looking statements" under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. This communication contains forward-looking statements relating to Creative Realities, Reflect and the proposed Merger. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events. Neither Creative Realities nor Reflect can assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "pro forma," "estimates," or "anticipates" or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. For example, forward-looking statements include any statements regarding our strategy for customer retention; growth; product development; market position; financial results; our reserves; our ability to meet Nasdaq's continued listing standards; our ability to execute on our business plan; our ability to retain key personnel; potential litigation; supply chain shortages; and general economic and market conditions impacting demand for our products and services; the strategies, prospects, plans, expectations or objectives of management of Creative Realities and Reflect for future operations of the combined company; the risk that the conditions to the closing of the proposed Merger are not satisfied, including the failure to timely or at all obtain approval of the Creative Realities Proposals and Reflect Proposal; uncertainties as to the timing of the consummation of the proposed Merger and the ability of each of Creative Realities and Reflect to consummate the proposed Merger; risks related to Creative Realities' ability to correctly estimate its operating expenses and expenses associated with the proposed Merger, including any debt expenses related to any debt financing obtained in advanced of the closing of the proposed Merger; Creative Realities' ability to obtaining any financing necessary to pay the \$18,666,667 cash portion of the Merger consideration and fund the \$1,333,333 cash portion of the Reflect Retention Plan at the closing of the Merger, including the terms of any debt or equity financing; risks related to the changes in market price of the Creative Realities shares of common stock; competitive responses to the proposed Merger; unexpected costs, charges or expenses resulting from the proposed Merger; the effect of the COVID-19 pandemic and the steps taken by governments and customers of Creative Realities and Reflect to address the pandemic, including business closures; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the proposed Merger; and legislative, regulatory, political and economic developments. The foregoing review of important factors that could cause actual events to differ from expectations should not be construed as exhaustive and should be read in conjunction with statements that are included herein and elsewhere.

For a discussion of the factors that may cause Creative Realities', Reflect's and the combined company's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied in such forward-looking statements, and for a discussion of risk associated with the ability of Creative Realities and Reflect to complete the proposed Merger and the effect of the proposed Merger on the business of Creative Realities, Reflect and the combined company, see "Risk Factors" set forth in the registration statement on Form S-4 with the SEC, which includes a joint proxy statement/prospectus (the "Proxy Statement"), filed with the SEC on November 12, 2021. Readers are also urged to carefully review and consider the various disclosures we make in amendments to the Proxy Statement filed with the SEC and that we will mail to our shareholders. In addition, additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in reports filed with the SEC by Creative Realities. There can be no assurance that the proposed Merger will be completed, or if it is completed, that it will be consummated within the anticipated time period or that the expected benefits of the proposed Merger will be realized.

If any of these risks or uncertainties materialize or any of these assumptions prove incorrect, the results of Creative Realities, Reflect or the combined company could differ materially from the forward-looking statements. All forward-looking statements in this communication are current only as of the date on which the statements were made. Neither Creative Realities nor Reflect undertake any obligation (and expressly disclaim any such obligation to) to publicly update any forward-looking statement to reflect events or circumstances after the date on which any statement is made or to reflect the occurrence of unanticipated events.

Important Additional Information

On November, 12, 2021, Creative Realities filed a registration statement on Form S-4 with the SEC, which includes a joint proxy statement/prospectus (the “Proxy Statement”), and intends to mail to its shareholders the definitive Proxy Statement in connection with the proposed Merger. The Proxy Statement contain important information about Creative Realities, Reflect, the proposed Merger and the Merger Agreement, the Creative Realities Proposals and the Reflect Proposal. Investors and security holders are urged to read the Proxy Statement carefully before making any voting or investment decision with respect to the proposed Merger or proposals therein.

Investors and security holders will be able to obtain free copies of the Proxy Statement and other documents filed by Creative Realities with the SEC through the website maintained by the SEC at www.sec.gov. In addition, investors and security holders will be able to obtain free copies of the Proxy Statement from Creative Realities by contacting Creative Realities’ investor relations at (502) 791-8800.

Participants in the Solicitation

Creative Realities and its directors and executive officers may be deemed to be participants in the solicitation of proxies with respect to the Creative Realities Proposals. Information regarding the directors and executive officers of Creative Realities and their ownership of shares of Creative Realities common stock is contained in the Proxy Statement, the preliminary form of which was filed with the SEC on November 12, 2021, and is supplemented by other public filings made, and to be made, with the SEC. Creative Realities’ directors and executive officers beneficially own approximately 10.25% of Creative Realities’ common stock. A more complete description is set forth in the Proxy Statement. Investors and security holders may obtain additional information regarding the direct and indirect interests of Creative Realities and its directors and executive officers with respect to the proposed Merger by reading the Proxy Statement and other filings referred to above.

Contact

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

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

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

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

Quarters ended	Quarters Ended				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
GAAP net income (loss)	\$ (343)	\$ 1,025	\$ 1,272	\$ (617)	\$ (585)
Interest expense:					
Amortization of debt discount	29	29	72	85	85
Other interest, net	158	153	177	186	179
Depreciation/amortization:					
Amortization of intangible assets	139	139	140	139	161
Amortization of finance lease assets	-	-	4	3	5
Amortization of share-based awards	329	329	512	250	248
Depreciation of property, equipment & software	208	205	200	209	212
Income tax expense/(benefit)	1	7	1	(6)	(1)
EBITDA	<u>\$ 521</u>	<u>1,887</u>	<u>2,378</u>	<u>249</u>	<u>\$ 304</u>
Adjustments					
Change in fair value of Special Loan	-	-	(166)	(609)	-
Gain on settlement of obligations	(256)	(1,628)	(1,565)	(54)	(114)
Loss on disposal of assets	-	-	-	-	13
Loss on lease termination	-	-	-	18	-
Stock-based compensation – Director grants	27	27	27	27	25
Adjusted EBITDA	<u>\$ 292</u>	<u>286</u>	<u>674</u>	<u>(369)</u>	<u>\$ 228</u>