

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 June 30, 2024

or

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

For the transition period from _____ to _____

Commission File Number 001-33169



Creative Realities, Inc.

(Exact Name of Registrant as Specified in its Charter)

Minnesota

State or Other Jurisdiction of
Incorporation or Organization

41-1967918

I.R.S. Employer
Identification No.

13100 Magisterial Drive, Suite 100, Louisville KY

Address of Principal Executive Offices

40223

Zip Code

(502) 791-8800

Registrant's Telephone Number, Including Area Code

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

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 August 13, 2024, the registrant had 10,446,659 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)

	June 30, 2024	December 31, 2023
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,086	\$ 2,910
Accounts receivable, net	9,491	12,468
Inventories, net	2,995	2,567
Prepaid expenses and other current assets	964	665
Total Current Assets	\$ 17,536	\$ 18,610
Property and equipment, net	418	499
Goodwill	26,453	26,453
Other intangible assets, net	23,745	24,062
Operating lease right-of-use assets	1,009	1,041
Other non-current assets	393	112
Total Assets	\$ 69,554	\$ 70,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 5,205	\$ 7,876
Accrued expenses and other current liabilities	4,345	3,761
Deferred revenues	2,946	1,132
Customer deposits	3,585	3,233
Current maturities of operating leases	449	505
Short-term portion of related party term debt	-	3,690
Short-term portion of contingent consideration, at fair value	10,196	-
Total Current Liabilities	26,726	20,197
Revolving credit facility	13,819	-
Long-term related party term debt	-	9,829
Long-term obligations under operating leases	585	536
Long-term contingent consideration, at fair value	-	11,208
Other non-current liabilities	187	176
Total Liabilities	41,317	41,946
Shareholders' Equity		
Common stock, \$0.01 par value, 66,666 shares authorized; 10,447 and 10,409 shares issued and outstanding, respectively	104	104
Additional paid-in capital	82,203	82,073
Accumulated deficit	(54,070)	(53,346)
Total Shareholders' Equity	28,237	28,831
Total Liabilities and Shareholders' Equity	\$ 69,554	\$ 70,777

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 June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Sales				
Hardware	\$ 5,024	\$ 3,437	\$ 9,168	\$ 7,759
Services and other	8,091	5,759	16,232	11,381
Total sales	<u>13,115</u>	<u>9,196</u>	<u>25,400</u>	<u>19,140</u>
Cost of sales				
Hardware	3,510	2,724	6,703	5,930
Services and other	2,817	2,174	6,145	3,823
Total cost of sales	<u>6,327</u>	<u>4,898</u>	<u>12,848</u>	<u>9,753</u>
Gross profit	6,788	4,298	12,552	9,387
Operating expenses:				
Sales and marketing expenses	1,665	1,229	3,130	2,365
General and administrative expenses	4,531	3,769	8,906	7,812
Total operating expenses	<u>6,196</u>	<u>4,998</u>	<u>12,036</u>	<u>10,177</u>
Operating income (loss)	592	(700)	516	(790)
Other expenses (income):				
Interest expense, including amortization of debt discount	513	787	1,176	1,590
(Gain) loss on change in fair value of contingent consideration	(408)	16	(1,012)	92
Loss on debt extinguishment	1,059	-	1,059	-
Other expense (income)	18	(123)	(17)	(135)
Total other expenses (income)	<u>1,182</u>	<u>680</u>	<u>1,206</u>	<u>1,547</u>
Net loss before income taxes	(590)	(1,380)	(690)	(2,337)
Provision for income taxes	(25)	(45)	(34)	(88)
Net loss	<u>\$ (615)</u>	<u>\$ (1,425)</u>	<u>\$ (724)</u>	<u>\$ (2,425)</u>
Basic loss per common share	<u>\$ (0.06)</u>	<u>\$ (0.19)</u>	<u>\$ (0.07)</u>	<u>\$ (0.33)</u>
Diluted loss per common share	<u>\$ (0.06)</u>	<u>\$ (0.19)</u>	<u>\$ (0.07)</u>	<u>\$ (0.33)</u>
Weighted average shares outstanding - basic	<u>10,447</u>	<u>7,406</u>	<u>10,434</u>	<u>7,379</u>
Weighted average shares outstanding - diluted	<u>10,447</u>	<u>7,406</u>	<u>10,434</u>	<u>7,379</u>

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2024	2023
Operating Activities:		
Net loss	\$ (724)	\$ (2,425)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	1,769	1,576
Amortization of debt discount	569	714
Amortization of stock-based compensation	6	493
Amortization of deferred financing costs	12	-
Loss on extinguishment of debt	1,059	-
Bad debt expense	130	309
Provision for inventory reserves	(49)	127
(Gain) loss on change in fair value of contingent consideration	(1,012)	92
Deferred income taxes	23	46
Changes to operating assets and liabilities:		
Accounts receivable	2,847	1,458
Inventories	(379)	992
Prepaid expenses and other current assets	(299)	1,035
Accounts payable	(2,630)	(585)
Accrued expenses and other current liabilities	705	(559)
Deferred revenue	1,814	1,604
Customer deposits	352	1,507
Other, net	13	(40)
Net cash provided by operating activities	<u>4,206</u>	<u>6,344</u>
Investing activities		
Purchases of property and equipment	(8)	(219)
Capitalization of labor for software development	(1,487)	(1,984)
Net cash used in investing activities	<u>(1,495)</u>	<u>(2,203)</u>
Financing activities		
Proceeds from borrowings under revolving credit facility	13,860	-
Repayment of borrowings under revolving credit facility	(41)	-
Payment of deferred financing costs	(186)	-
Repayment of term debt	(15,147)	(2,504)
Principal payments on finance leases	(21)	(6)
Net cash used in financing activities	<u>(1,535)</u>	<u>(2,510)</u>
Increase in Cash and Cash Equivalents	<u>1,176</u>	<u>1,631</u>
Cash and Cash Equivalents, beginning of period	<u>2,910</u>	<u>1,633</u>
Cash and Cash Equivalents, end of period	<u>\$ 4,086</u>	<u>\$ 3,264</u>

See accompanying notes to condensed consolidated financial statements.

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

	<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 June 30, 2024</i>					
Balance as of March 31, 2024	10,446,659	\$ 104	\$ 82,200	\$ (53,455)	\$ 28,849
Stock-based compensation	-	-	3	-	3
Net loss	-	-	-	(615)	(615)
Balance as of June 30, 2024	<u>10,446,659</u>	<u>\$ 104</u>	<u>\$ 82,203</u>	<u>\$ (54,070)</u>	<u>\$ 28,237</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>Six Months Ended June 30, 2024</i>					
Balance as of December 31, 2023	10,409,027	\$ 104	\$ 82,073	\$ (53,346)	\$ 28,831
Stock-based compensation	-	-	6	-	6
Shares issued to employees pursuant to the Retention Bonus Plan	37,632	-	124	-	124
Net loss	-	-	-	(724)	(724)
Balance as of June 30, 2024	<u>10,446,659</u>	<u>\$ 104</u>	<u>\$ 82,203</u>	<u>\$ (54,070)</u>	<u>\$ 28,237</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 June 30, 2023</i>					
Balance as of March 31, 2023	7,394,407	\$ 74	\$ 76,417	\$ (51,409)	\$ 25,082
Stock-based compensation	-	-	171	-	171
Shares issued to vendors as compensation	14,620	-	30	-	30
Net loss	-	-	-	(1,425)	(1,425)
Balance as of June 30, 2023	<u>7,409,027</u>	<u>\$ 74</u>	<u>\$ 76,618</u>	<u>\$ (52,834)</u>	<u>\$ 23,858</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>Six Months Ended June 30, 2023</i>					
Balance as of December 31, 2022	7,266,382	\$ 72	\$ 75,916	\$ (50,409)	\$ 25,579
Stock-based compensation	-	-	414	-	414
Shares issued to directors as compensation	51,616	1	95	-	96
Shares issued to vendors as compensation	28,554	-	55	-	55
Shares issued to employees pursuant to the Retention Bonus Plan	62,475	1	138	-	139
Net loss	-	-	-	(2,425)	(2,425)
Balance as of June 30, 2023	<u>7,409,027</u>	<u>\$ 74</u>	<u>\$ 76,618</u>	<u>\$ (52,834)</u>	<u>\$ 23,858</u>

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS

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

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”), Creative Realities Canada, Inc., a Canadian corporation (“CRI Canada”), and Reflect Systems, Inc., a Delaware corporation (“Reflect”).

Liquidity and Financial Condition

In accordance with Accounting Standards Update (“ASU”) No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (Subtopic 205-40)* (“ASU 205-40”), the Company has evaluated whether there are certain conditions and events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the Condensed Consolidated Financial Statements are issued.

At June 30, 2024, the Company has an accumulated deficit of \$54,045 and negative working capital of \$9,184. For the six months ended June 30, 2024, the Company generated operating income of \$516 and positive net cash flows from operations of \$4,206. The Company’s contingent consideration obligation is dependent upon the market value of the Company’s share price at a future date, February 17, 2025, and contractually must be settled in cash. The estimate for financial statement accounting purposes is \$10,196 as of June 30, 2024. While the Company is currently generating cash from operations and has refinanced its debt, the Credit Agreement (as defined in [Note 7](#) below) limits, via specific reserve, utilization of the Company’s line of credit to no more than \$4,000 for payments to satisfy the contingent consideration. Should the contingent consideration require a cash payment at maturity in excess of the Company’s availability under the Credit Agreement, inclusive of such reserve, the Company may not have sufficient liquidity to settle this obligation without receipt of a waiver under the Credit Agreement or a reduction in the amount of the contingent consideration. The conditions and events raise substantial doubt about the Company’s ability to continue as a going concern under the technical framework within ASU 205-40.

In response to these conditions, the Company continues to evaluate its available options for amending its debt facilities or accessing the capital markets via equity financing. However, these plans have not been finalized, are subject to market conditions, in some respects are not within the Company’s control, and therefore cannot be deemed probable. As a result, the Company has concluded that management’s plans do not alleviate substantial doubt about the Company’s ability to continue as a going concern.

The Condensed Consolidated Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

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 instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States 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, 2023, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 21, 2024, as amended on April 26, 2024.

The Condensed Consolidated Financial Statements include the accounts of Creative Realities, Inc. and our wholly owned subsidiaries Allure, CRI Canada, and Reflect. All intercompany balances and transactions have been eliminated in consolidation, as applicable. Certain amounts have been reclassified to conform to current period presentation.

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. Recently Issued Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires public entities to disclose information about their reportable segments' significant expenses and other segment items on an interim and annual basis. Public entities with a single reportable segment are required to apply the disclosure requirements in ASU 2023-07, as well as all existing segment disclosures and reconciliation requirements in ASC 280 on an interim and annual basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-07.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires public entities, on an annual basis, to provide disclosure of specific categories in the rate reconciliation, as well as disclosure of income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-09.

3. Revenue Recognition

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

If an arrangement involves multiple performance obligations, the obligations are analyzed to determine the separate units of accounting, whether the obligations 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 customer 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 has very few contracts with material extended payment terms as payment is typically due at or shortly after the time of the sale, typically ranging between thirty and ninety days. In those instances where the Company has material extended payment terms (most commonly in multi-year arrangements where the Company acts as an agent to a transaction on behalf of its customers), the Company evaluates and applies constraints to arrive at the revenue recognized in the period in which a contract is entered. 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 customers. A contract liability is recognized as deferred revenue when the Company invoices customers 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.

4. Allowance for Credit Losses

The allowance for credit losses is the Company's best estimate of the amount of expected lifetime credit losses in the Company's accounts receivable. The Company regularly reviews the adequacy of its allowance for credit losses. The Company estimates losses over the contractual life using assumptions to capture the risk of loss, even if remote, based principally on how long a receivable has been outstanding. Account balances are charged off against the allowance for credit losses after all reasonable means of collection have been exhausted and the potential for recovery is considered remote. Other factors considered include historical write-off experience, current economic conditions, customer credit, and past transaction history with the customer. The allowance for credit losses is included in accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for its allowance for credit losses for the six month ended June 30, 2024 and 2023:

	June 30, 2024	June 30, 2023
Balance as of beginning of period	\$ 701	\$ 984
Amounts accrued	130	309
Write-offs charged against the allowance	-	(179)
Balance as of end of period	<u>\$ 831</u>	<u>\$ 1,114</u>

5. 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:

	June 30, 2024	December 31, 2023
Raw materials	\$ 2,372	\$ 2,063
Work-in-process	623	504
Total inventories	<u>\$ 2,995</u>	<u>\$ 2,567</u>

6. Impairment of Long-Lived Assets

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

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

7. Basic and Diluted Loss per Common Share

Basic and diluted loss per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding 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 6,219,800 and 7,391,651 at June 30, 2024 and 2023, respectively, were excluded from the computation of loss per share as the options and warrants were anti-dilutive.

8. 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 a number of matters including, but not limited to, 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 June 30, 2024 and December 31, 2023.

9. Goodwill and Intangible Assets

We follow the provisions of ASC 350, *Goodwill and Other Intangible Assets*. Pursuant to ASC 350, goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually. The Company uses an annual measurement date of September 30 to assess impairment of goodwill and indefinite-lived intangible assets, or as indicators are identified.

Definite-lived intangible assets are amortized straight-line in accordance with their identified useful lives.

10. 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: valuation of the contingent consideration, allowance for credit losses, 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.

11. Contingent Consideration

On November 12, 2021, the Company, Reflect, and other parties, entered into an Agreement and Plan of Merger (as amended on February 8, 2022 and February 11, 2023, the "Merger Agreement") pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, would merge with and into Reflect, with Reflect surviving the merger and becoming our wholly owned subsidiary, which transaction is referred to herein as the "Merger." On February 17, 2022, the parties consummated the Merger. The Merger Agreement requires the Company to pay to the former Reflect stockholders additional contingent supplemental cash payments (the "Guaranteed Consideration"), if any, payable on or after February 17, 2025 (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 (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). The Company has recorded contingent liabilities related to the Guaranteed Consideration to reflect the Company's 1-for-3 reverse stock split that occurred on March 23, 2023. Accordingly, the amount of the Company's potential liability related to the contingent consideration is recorded at \$19.20 per share.

The Company may exercise an extension option (the "Extension Option") to extend the Guarantee Date by six (6) months, from February 17, 2025 to August 17, 2025, if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) the Company provides written notice of its election to exercise the Extension Option no later than February 7, 2025. The "Extension Threshold Price" means the average closing price per share of Creative Realities common stock as reported on the Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending February 2, 2025. The Merger Agreement provides that 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.

NOTE 3: FAIR VALUE MEASUREMENT

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

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

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

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

The calculation of the fair value of the contingent consideration contains inputs which are unobservable and involve management judgment and are considered Level 3 estimates. Additionally, the separately identifiable intangible assets rely on a discounted cash flow model which utilizes inputs including the calculation of the weighted average cost of capital and management's forecast of future financial performance which are unobservable and involve management judgment and are considered Level 3 estimates.

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.

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 six months ended June 30, 2024 and 2023:

<i>(in thousands)</i>	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Hardware	\$ 5,024	\$ 3,437	\$ 9,168	\$ 7,759
Services:				
Managed Services	4,847	3,835	9,621	7,907
Installation Services	2,038	1,168	4,198	2,115
Other Services	1,206	756	2,413	1,359
Total Services	<u>8,091</u>	<u>5,759</u>	<u>16,232</u>	<u>11,381</u>
Total Hardware and Services	<u>\$ 13,115</u>	<u>\$ 9,196</u>	<u>\$ 25,400</u>	<u>\$ 19,140</u>

Hardware

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.

Managed Services*Software as a service ("SaaS") license sales*

Software as a service includes revenue from software licensing and delivery in which software is licensed on a subscription basis and is centrally hosted by the Company. 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.

Maintenance and support services

The Company sells support services that include access to technical support personnel for software and hardware troubleshooting. The Company offers a hosting service through our network operations center, or NOC, allowing the ability to monitor and support our customers' networks 7 days a week, 24 hours a day. These contracts are generally 12-36 months in length and typically have autorenewal terms. Revenue is recognized over the term of the agreement in proportion to the costs incurred in fulfilling performance obligations under the contract.

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

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

Installation Services

The Company performs installation services associated with system hardware sales to customers and recognizes revenue upon completion of the installations. Installation services also include engineering and configuration services required to be performed to design and deploy a digital signage system that subsequently becomes an installation project.

When system hardware sales include installation services to be performed by the Company, the goods and services in the contract are, in certain instances, not distinct as the customer contract contemplates an installed solution, inclusive of system hardware. In those instances, the arrangement is accounted for as a single performance obligation. Our customers may control the work-in-process and can make changes to the design specifications over the contract term. In these circumstances, 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. Typically, in large scale deployments that include installation services, the contract terms segregate performance obligations related to hardware sales and installation services by providing for different legal transfer of title and risk of loss. In those circumstances, installation services are deemed to be a separate performance obligation. In each instance, installation services are recognized at the time of completion.

Other Services

Software design and development services

Software design and custom development sales represent fixed fee orders for work on a time and materials basis and are recognized as revenue when the application, feature, or custom software code 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.

Media sales

Media revenues are derived from selling (i) promotion and sponsorship packages to monetize customer infrastructure assets, including mobile takeover or physical presence, or (ii) digital advertising inventory to advertisers on digital displays or other outdoor structures, owned or controlled by our customers, each within physical venues. We sell advertising or sponsorship opportunities on behalf of our media network owner customers to brands and advertisers. We generally do not own the devices that display the sold digital advertising. The Company has concluded that it acts as an agent and reports media revenues on a net basis, with the Company recording its commission, which typically is between thirty percent (30%) and forty percent (40%) of the total media sales contract, as revenue in the consolidated financial statements.

The media sales contracts we facilitate on behalf of our customers range from a single day to eight years. The Company invoices advertisers on behalf of our customers and remits the net cash to our customer after the advertiser has paid the Company the fees owed for such advertising. Media revenue services are recognized when the Company has completed its performance obligations under the contract with our customers, which typically has concluded upon facilitating execution of contracts between our customer and a brand/advertiser. The Company applies time-based constraints in accordance with ASC 606 to evaluate the earned portion of the contract to record at execution.

For revenues generated through the use of a subcontracted advertising agency, commissions are calculated based on a stated percentage of gross advertising revenue and reported in the Condensed Consolidated Statements of Operations within Sales and Marketing Expenses.

NOTE 5: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Six Months Ended	
	June 30,	
	2024	2023
<u>Supplemental non-cash investing activities</u>		
Capitalized software in accounts payable	\$ 65	\$ 264
Property and equipment in accounts payable	\$ -	\$ 23
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 12	\$ 89
Capitalized deferred financing costs in accounts payable	\$ 95	\$ -
<u>Supplemental disclosure information for cash flow</u>		
Cash paid during the period for:		
Interest	\$ 601	\$ 1,040
Operating leases	\$ 306	\$ 377
Income taxes, net	\$ 44	\$ 44

NOTE 6: INTANGIBLE ASSETS, INCLUDING GOODWILL*Intangible Assets*

Intangible assets consisted of the following at June 30, 2024 and December 31, 2023:

	June 30, 2024		December 31, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	\$ 6,900	\$ 2,638	\$ 6,900	\$ 2,255
Purchased and developed software	5,902	3,865	5,284	3,405
Internally developed software platform	6,813	79	6,080	-
Customer relationships	13,910	3,702	13,910	3,054
Trademarks and trade names	1,260	756	1,260	660
Non-compete	-	-	30	28
	<u>34,785</u>	<u>11,040</u>	<u>33,464</u>	<u>9,402</u>
Accumulated amortization	11,040		9,402	
Net book value of amortizable intangible assets	<u>\$ 23,745</u>		<u>\$ 24,062</u>	

For the three months ended June 30, 2024 and 2023, amortization of intangible assets charged to operations was \$878 and \$755, respectively. For the six months ended June 30, 2024 and 2023, amortization of intangible assets charged to operations was \$1,668 and \$1,508, 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, evaluated on an annual basis at September 30th each fiscal year, when an event occurs, or circumstances change that would indicate potential impairment. The Company has only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit.

The Company assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of its reporting unit. Fair value of the reporting unit was estimated using both (1) a market approach, leveraging recent industry merger and acquisition activity as well as comparable public company information, and (2) a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur. Specifically, the Company gave significant consideration to actual historic financial results, including revenue growth rates in the current and preceding three years, further informed by known backlog and customer acquisitions. Based on the Company's assessment, we determined that the fair value of our reporting unit exceeded its carrying value, and accordingly, the goodwill associated with the reporting unit was not considered to be impaired at September 30, 2023. No indicators of impairment were identified at June 30, 2024.

The Company recognizes that any changes in our projected 2024 results could potentially have a material impact on our assessment of goodwill impairment. The Company will continue to monitor the actual performance of its operations against expectations and assess indicators of possible impairment. The valuation of goodwill and intangible assets is subject to a high degree of judgment, uncertainty and complexity. Should any indicators of impairment occur in subsequent periods, the Company will be required to perform an analysis in order to determine whether goodwill is impaired.

NOTE 7: DEBT

Debt for the Company consists of the following:

Debt Instrument	Issuance Date	Maturity Date	June 30,	December 31,	Warrants	Interest Rate Information
			2024	2023		
Revolving credit facility	5/23/2024	5/23/2027	\$ 13,819	\$ -	None	See below
Acquisition Term Loan	2/17/2022	2/15/2025	-	10,000	833,334	8%
Consolidation Term Loan	2/17/2022	2/15/2025	-	5,147	898,165	10%
Total debt, gross			13,819	15,147		
Less: Deferred financing costs			269	1,628		
Total debt, net			13,550	13,519		
Less: Current portion			-	3,690		
Total long-term debt, net			\$ 13,550	\$ 9,829		

On May 23, 2024, the Company entered into a Credit Agreement (the "Credit Agreement") with First Merchants Bank (the "Bank"). The Credit Agreement provides the Company with a \$22,100 secured revolving credit facility, with an uncommitted accordion feature that provides for additional borrowing capacity of up to \$5,000, subject to the Bank's approval and other customary terms and conditions set forth in the Credit Agreement. The revolving credit facility matures on May 23, 2027, subject to any earlier default under the Credit Agreement. The Credit Agreement requires the Company to pay the entire unpaid principal balance of the revolving credit facility on the maturity date, May 23, 2027, subject to any earlier default under the Credit Agreement. The Credit Agreement includes, among other things, the occurrence of any event which could reasonably be anticipated to cause or result in a "Material Adverse Effect" (as defined in the Credit Agreement) as an event of default under which the outstanding balance could become due and payable to the Bank. The Company has determined that the risk of such event is not probable and therefore has classified the outstanding balance in long-term liabilities in the Condensed Consolidated Balance Sheets based on the maturity date.

On May 23, 2024, the Company borrowed \$13,667 under the revolving credit facility to repay all obligations owing to its prior lender, Slipstream Communications, LLC, including the outstanding principal balance of \$10,000 on the Acquisition Term Loan, the outstanding principal balance of \$3,593 on the Consolidation Term Loan and accrued interest expense incurred through the payoff date of \$74. The Company recognized a \$1,059 loss on extinguishment of debt equal to the unamortized portion of debt discount at May 23, 2024 associated with the Acquisition Term Loan and Consolidation Term Loan.

The revolving credit facility accrues interest at a floating rate equal to the 1-month SOFR, plus 0.11%, plus a floating margin ranging from 2.00% to 3.50% that adjusts quarterly, depending upon the Company's Senior Funded Debt to EBITDA Ratio. The floating margin is determined as follows:

Senior Funded Debt to EBITDA Ratio	Floating Margin
< 1.00 to 1	2.00%
≥ 1.00 to 1.00 but < 2.00 to 1.00	2.50%
≥ 2.00 to 1.00 but < 3.00 to 1.00	3.00%
≥ 3.00 to 1.00	3.50%

The effective interest rate at June 30, 2024 was 8.93%. The Company shall pay accrued interest monthly on the first day of each successive calendar month, beginning July 1, 2024, and continuing thereafter.

The Company incurred \$281 of deferred financing costs that were capitalized during the three months ended June 30, 2024 and recorded as other non-current assets within the Condensed Consolidated Balance Sheets. Deferred financing costs will be amortized as interest expense over the respective debt instrument period, 36 months.

The Company had \$13,819 in outstanding borrowings under the revolving credit facility as of June 30, 2024. Total availability under the revolving facility was \$4,281, after accounting for \$4,000 reserved under the Credit Agreement until resolution of the Contingent Consideration.

As of June 30, 2024, the Company was in compliance with all applicable debt covenants.

NOTE 8: COMMITMENTS AND CONTINGENCIES

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

NOTE 9: 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 months ended June 30, 2024 and 2023, we reported tax liabilities of \$25 and \$45, respectively. At June 30, 2024, the net deferred tax liabilities were \$95 after valuation allowance, compared to net tax liabilities of \$73 at December 31, 2023.

NOTE 10: WARRANTS

The Company had outstanding warrants accounted for as equity instruments in the Company's Condensed Consolidated Financial Statements totaling 4,587,002 at June 30, 2024 and December 31, 2023 with a weighted average exercise price of \$4.90. The weighted average remaining contractual life of the outstanding warrants was 3.61 and 4.11 at June 30, 2024 and December 31, 2023, respectively.

NOTE 11: 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
\$4.01 - \$8.00	566,673	6.13	\$ 7.42	566,673	\$ 7.42
\$8.01+	92,791	1.59	23.97	92,791	\$ 23.97
	<u>659,464</u>	<u>5.49</u>	<u>\$ 9.75</u>	<u>659,464</u>	

Performance Vesting Options

Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
240,000	5.92	\$ 7.59	240,000	\$ 7.59
<u>240,000</u>	<u>5.92</u>	<u>\$ 7.59</u>	<u>240,000</u>	

Market Vesting Options

Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
733,334	0.64	\$ 3.00	-	\$ -
<u>733,334</u>	<u>0.64</u>	<u>\$ 3.00</u>	<u>-</u>	

Date/Activity	<i>Market Vesting Options</i>		<i>Time Vesting Options</i>		<i>Performance Vesting Options</i>	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2023	733,334	3.00	662,798	\$ 10.00	240,000	\$ 7.59
Granted	-	-	-	-	-	-
Forfeited or expired	-	-	(3,334)	59.76	-	-
Balance, June 30, 2024	<u>733,334</u>	<u>3.00</u>	<u>659,464</u>	<u>9.75</u>	<u>240,000</u>	<u>\$ 7.59</u>

The weighted average remaining contractual life for options exercisable is 5.61 years as of June 30, 2024.

Employee Awards

Stock-based compensation expense recognized for the issuance of stock options to employees for the three and six months ended June 30, 2024 of \$3 and \$6, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Stock-based compensation expense recognized for the issuance of stock options to employees for the three and six months ended June 30, 2023 of \$151 and \$377, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements.

At June 30, 2024, there was \$9 of total unrecognized compensation expense related to unvested share-based awards with market vesting criteria for employees. Compensation expense related to market vesting options will be recognized over the next 8 months and will be adjusted for any future forfeitures as they occur.

Non-Employee Awards

Stock-based compensation expense recognized for the issuance of stock options to our non-employee Board of Directors, for the three and six months ended June 30, 2024 was \$0 and included in general and administrative expense in the Condensed Consolidated Financial Statements. Stock-based compensation expense recognized for the issuance of stock options to our non-employee Board of Directors for the three and six months ended June 30, 2023 of \$43 and \$86, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements.

At June 30, 2024, there was no unrecognized compensation expense related to share-based awards for non-employee directors.

NOTE 12: SIGNIFICANT CUSTOMERS/VENDORS

Significant Customers

We had three customers that accounted for 18%, 17%, and 13% of accounts receivable at June 30, 2024 and three customers that accounted for 28%, 25%, and 11% of accounts receivable at December 31, 2023.

We had four customers that accounted for 13%, 13%, 11%, and 10% of revenue for the three months ended June 30, 2024, compared to three customers that accounted for 13%, 11%, and 10% of revenue for the three months ended June 30, 2023.

We had three customers that accounted for 13%, 12% and 10% of revenue for the six months ended June 30, 2024, compared to two customers that accounted for 19% and 11% of revenue for the six months ended June 30, 2023.

Significant Vendors

We had one vendor that accounted for 28% of outstanding accounts payable at June 30, 2024, and one vendor that accounted for 38% of outstanding accounts payable at December 31, 2023.

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

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words “anticipates,” “believes,” “expects,” “intends,” “plans,” “estimates,” “projects,” “should,” “may,” “propose,” and similar expressions (or the negative versions of such words or expressions), as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated, 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, 2023 as filed with the Securities and Exchange Commission on March 21, 2024, as amended on April 26, 2024, and in the Company’s Quarterly Report on Form 10-Q filed with the SEC on May 10, 2024.

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

Overview

The Company transforms environments through digital solutions by providing innovative digital signage solutions for key market segments and use cases, including:

- Retail
- Entertainment and Sports Venues
- Restaurants, including quick-serve restaurants (“QSR”)
- Convenience Stores
- Financial Services
- Automotive
- Medical and Healthcare Facilities
- Mixed Use Developments
- Corporate Communications, Employee Experience
- Digital out of Home (“DOOH”) Advertising Networks

We serve market-leading companies, so there is a good chance that if you leave your home today to shop, work, eat, or play, you will encounter one or more of our digital signage experiences. Our solutions are increasingly visible because we help our enterprise customers achieve a range of business objectives, including:

- Increased brand awareness;
- Improved customer support;
- Enhanced employee productivity and satisfaction;
- Increased revenue and profitability;
- Improved guest experience; and
- Increased customer/guest engagement.

Through a combination of organically grown platforms and a series of strategic acquisitions, the Company assists customers to design, deploy, manage, and monetize their digital signage networks. The Company sources leads and opportunities for its solutions through its digital and content marketing initiatives, close relationships with key industry partners, specifically equipment manufacturers, and the direct efforts of its in-house industry sales experts. Customer engagements focus on consultative conversations that ensure the Company’s solutions are positioned to help customers achieve their business objectives in the most cost-effective manner possible.

When comparing us to other digital signage providers, our customers value the following competitive advantages:

- **Breadth of solutions** – Creative Realities offers a wide breadth of solutions to our customers. Creative Realities is one of only a few companies in the industry capable of providing the full portfolio of products and services required to implement and run an effective digital signage network. We leverage a ‘single vendor’ approach, providing customers with a one-stop-shop for sourcing digital signage solutions from design through day two services.
- **Managed labor pool** – Unlike most companies in our industry, we have a curated labor pool of qualified and vetted field technicians available to service customers quickly nationwide. We can meet tight schedules even in exceptionally large deployments and still ensure quality and consistency.
- **In-house creative resources** – We assist customers in creating new content or repurposing existing content for digital signage experiences, an activity for which the Company has won several design awards in recent years. In each instance, our services can be essential in helping customers develop an effective content program.
- **Network scalability and reliability** – Our SaaS content management platforms power some of the largest and most complex digital signage networks in North America, evidencing our ability to manage enterprise scale projects. This also provides us purchasing power to source products and services for our customers, enabling us to deliver cost effective, reliable and powerful solutions to small and medium size business customers.
- **Ad management platform** – Our customers are increasingly interested in monetizing their digital signage networks through advertising content. However, efficiently scheduling advertising content into digital signage playlists to meet campaign objectives can be a challenging and labor-intensive process for our customers. AdLogic, our home-grown, content management-agnostic platform, automates this process, allowing network owners to capture more revenue with less expense.
- **Media sales** – Few digital signage solution providers offer their customers media sales as a service. We have in-house media sales expertise to elevate conversations with our customers interested in better understanding network monetization. We believe this meaningful differentiation in the sales process provides us an additional revenue stream compared to our competitors.
- **Market sector expertise** – Creative Realities has in-house experts in key market segments such as automotive, retail, QSRs, convenience stores, and DOOH advertising. Our expertise in these business segments enable our teams to provide meaningful business conversations and offer tailored solutions with prospects and customers to their unique business objectives. These experts build industry relationship and create thought leadership that drives lead flow and new opportunities for our business.
- **Logistics** – Implementing a large digital signage project can be a logistical nightmare that can stall an initiative, even before deployment. Our expertise in logistics improves deployment efficiency, reduces delays and problems, and saves customers time and money.
- **Technical support** – Digital signage networks present unique challenges for corporate IT departments. We simplify and improve end user support by leveraging our own NOC in Louisville, Kentucky. The NOC resolves many issues remotely and when field support is required, it can be dispatched quickly from the NOC, leveraging our managed labor pool to resolve customer issues quickly and effectively.
- **Integrations and application development** – The future of digital signage is not still images and videos on a screen. We believe that interactive applications and integrations with other data sources will dominate the future. From social media feeds, mobile integrations, corporate data stores, or point of sale systems, our proven ability to build scalable applications and integrations is a key advantage that customers can leverage to deliver more compelling and engaging experiences for their customers.
- **Hardware support** – A number of digital signage providers sell a proprietary media player or align themselves with just one operating system. We utilize a range of media players including Windows, Android and BrightSign to provide customers flexibility to select the appropriate hardware for any application knowing the entire network can still be served by a single digital signage platform, reducing complexity and improving the productivity of our customers.

Our Sources of Revenue

The three primary sources of revenue for the Company are:

- Hardware sales from reselling digital signage hardware from original equipment manufacturers such as Samsung and BrightSign.
- Services revenue from helping customers design, deploy and manage their digital signage network, including:
 - Hardware system design/engineering
 - Hardware installation
 - Content development
 - Content scheduling
 - Post-deployment network and field support
 - Media sales
- Recurring subscription licensing and support revenue from our digital signage software platforms, which are generally sold via a SaaS model. Our platforms:
 - **ReflectView**, the Company's core digital signage platform for most applications, scalable and cost effective from 10 to 100,000+ devices;
 - **Reflect Xperience**, a web-based interface that allows customers to give content scheduling access to local users via the web or mobile devices, while still maintaining centralized programming control;
 - **Reflect AdLogic**, the Company's ad management platform for digital signage networks, which presently delivers approximately 50 million ads daily;
 - **Clarity**, the Company's menu board solution, which has become a market leader for a range of restaurant and convenience store applications;
 - **Reflect Zero Touch**, which allows customers to turn any screen into an interactive experience by allowing guests to engage using their mobile device;
 - **iShowroomProX**, an omni-channel digital sales support platform targeted at original equipment manufacturers in the transportation sector, which integrates with dozens of key data services including dealer inventory at the VIN level; and
 - **OSx+**, a digital VIN-level checklist used to assist in the tracking and delivery of new vehicles in the transportation sector, providing measurable lift in customer satisfaction scores and connected vehicle enrollments and subscription activations.

While hardware sales and support services revenues can fluctuate more significantly year over year based on new, large-scale network deployments, the Company expects to see continuous growth in recurring SaaS revenue for the foreseeable future as digital signage adoption/utilization continues to expand across the vertical markets we serve.

Our Operating Expenses

Our operating expenses are comprised of sales and marketing, and general and administrative expenses. 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 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 Report. The Company's Condensed Consolidated Financial Statements are prepared in conformity with GAAP. 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 share and per-share information.

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023

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 June 30,		Change	
	2024	2023	\$	%
Sales	\$ 13,115	\$ 9,196	\$ 3,919	43%
Cost of sales	6,327	4,898	\$ 1,429	29%
Gross profit	6,788	4,298	2,490	58%
Sales and marketing expenses	1,665	1,229	436	35%
General and administrative expenses	4,531	3,769	762	20%
Total operating expenses	6,196	4,998	1,198	24%
Operating income (loss)	592	(700)	1,292	185%
Other expenses (income):				
Interest expense, including amortization of debt discount	513	787	(274)	35%
Change in fair value of contingent consideration	(408)	16	(424)	2650%
Loss on debt extinguishment	1,059	-	1,059	100%
Other expense (income)	18	(123)	141	115%
Total other expenses (income)	1,182	680	502	74%
Net loss before income taxes	(590)	(1,380)	790	57%
Provision for income taxes	(25)	(45)	20	44%
Net loss	\$ (615)	\$ (1,425)	810	57%

Sales

Sales increased \$3,919, or 43%, for the three months ending June 30, 2024 as compared to the same period in 2023. Hardware revenues were \$5,024, an increase of \$1,587, or 46%, for the three months ending June 30, 2024 as compared to the same period in 2023. Services and other revenues were \$8,091, an increase of \$2,332 or 40%, driven by increases in both installation and managed services revenues. Installation services revenue increased \$870, or 74%, as a result of significant installation deployment activity during the period. Managed services revenue, which includes the Company's SaaS subscription services, were \$4,849, an increase of \$1,014, or 26%, as compared to the same period in 2023. An increase in the quantity of licenses subject to software subscriptions on our platforms and an expansion in the average price per subscription license per month in part as a result of price increases during contract renewals drove the increase.

Gross Profit

Gross profit margin increased to 52% from 47% for the three months ending June 30, 2024 and 2023, driven primarily by economies of scale and reducing costs of delivery as a percentage of revenue as the Company increases revenue in any given period. While the Company's revenue mix was less favorable in the current year (based on gross profit margins of the types of revenues), the overall revenue growth in hardware, installation services, managed services, and other services ultimately drove increased gross profit and enhanced gross profit margins. The Company anticipates further margin expansion as revenue expands more quickly than the associated cost of deployment and support of those enhanced levels of revenue.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses increased by \$436, or 35%, for the three-month period ended June 30, 2024 as compared to the same period in 2023, driven primarily by the Company's enhanced investments into sales and marketing activities, increases of (1) \$247 in fixed and variable sales costs as the Company continues to invest in new business development to strengthen its pipeline, and (2) \$169 in variable third party media-related commissions.

General and Administrative Expenses

General and administrative expenses increased \$762, or 20% during the three months ending June 30, 2024 as compared to the same period in 2023. The change is driven by (1) an increase of \$672 in personnel costs, including both the Company's portion of employee benefits and other administrative and processing costs associated with employment, in the current year driven by increased headcount in development and administrative functions to support active and anticipated deployments for a growing number of customers and (2) an increase of \$136 in systems infrastructure costs associated with implementation and enhancements to the Company's operating systems. We expect these costs to begin reducing as we enter 2025 and sunset legacy applications for which activities have been or will be migrated to the new infrastructure and applications. Increases in general and administrative expenses were offset by a \$191 decrease in stock compensation expense in the current period as all outstanding time vested and performance awards for employees and directors were fully expensed as of December 31, 2023.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023

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 Six Months Ended June 30,		Change	
	2024	2023	\$	%
Sales	\$ 25,400	\$ 19,140	\$ 6,260	33%
Cost of sales	12,848	9,753	3,095	32%
Gross profit	12,552	9,387	3,165	34%
Sales and marketing expenses	3,130	2,365	765	32%
General and administrative expenses	8,906	7,812	1,094	14%
Total operating expenses	12,036	10,177	1,859	18%
Operating income (loss)	516	(790)	1,306	165%
Other income/(expenses):				
Interest expense, including amortization of debt discount	1,176	1,590	(414)	26%
Change in fair value of equity guarantee	(1,012)	92	(1,104)	1200%
Loss on debt extinguishment	1,059	-	1,059	100%
Other income	(17)	(135)	118	87%
Total other income/(expenses)	1,206	1,547	(341)	22%
Net (loss) income before income taxes	(690)	(2,337)	1,647	70%
Provision from income taxes	(34)	(88)	54	61%
Net loss	\$ (724)	\$ (2,425)	1,701	70%

Sales

Sales increased \$6,260, or 33%, for the six months ending June 30, 2024 as compared to the same period in 2023. Hardware revenues were \$9,168, an increase of \$1,409, or 18%, for the six months ending June 30, 2024 as compared to the same period in 2023. Services and other revenues were \$16,232, an increase of \$4,851 or 43%, as compared to the same period in 2023. Managed services revenue, which includes the Company's SaaS subscription services were \$9,623, an increase of \$1,716, or 22%, as compared to the same period in 2023. An increase in the quantity of licenses subject to software subscriptions on our platforms and an expansion in the average price per subscription license per month in part as a result of price increases during contract renewals drove the increase.

Gross Profit

Gross profit margin was approximately 49% for both the six months ending June 30, 2024 and 2023. The Company's revenue mix varied in each period, with higher installation services revenue in the current year generating a drag on gross margin, offset by (1) an increase in other services revenue in the current year which generated an average gross margin in excess of the Company's aggregate average, and (2) a reduction in hardware revenues as a percentage of total revenues in the current year, which typically have gross margins of approximately 20%.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses increased by \$765, or 32%, for the six months ending June 30, 2024 as compared to the same period in 2023, driven primarily by the Company's enhanced investments into sales and marketing activities, including increases of (1) \$471 in fixed and variable sales costs as the Company continues to invest in new business development to strengthen its pipeline, (2) \$187 in variable third party media-related commissions, and (3) \$121 in industry trade show events.

General and Administrative Expenses

General and administrative expenses increased \$1,094, or 14% during the six months ending June 30, 2024 as compared to the same period in 2023. The change is driven by (1) an increase of \$1,318 in personnel costs, including both the Company's portion of employee benefits and other administrative and processing costs associated with employment, in the current year driven by increased headcount in development and administrative functions to support active and anticipated deployments for a growing number of customers and (2) an increase of \$234 in systems infrastructure costs associated with implementation and enhancements to the Company's operating systems. We expect these costs to begin reducing as we enter 2025 and sunset legacy applications for which activities have been or will be migrated to our new infrastructure and applications. Increases in general and administrative expenses were offset by a \$485 decrease in stock compensation expense in the current period as all outstanding time vested and performance awards for employees and directors were fully expensed as of December 31, 2023.

Interest Expense

See [Note 7 Debt](#) to the Condensed Consolidated Financial Statements for a discussion of the Company's debt and related interest expense obligations.

Changes in fair value of contingent consideration

The Company has a contingent consideration arrangement related to the Merger to potentially pay additional cash amounts in future periods based on the lack of achievement of certain share price performance goals of our common stock. See [Note 2 Section 11 Summary of Significant Accounting Policies - Contingent Consideration](#) to the Condensed Consolidated Financial Statements for a discussion of the Company's obligations related to the contingent consideration arrangement. The contingent consideration arrangement is recorded at fair value and is classified as a liability on the acquisition date and is remeasured at each reporting period in accordance with ASC 805-30-35-1 using a Monte Carlo simulation model. The change in the period represents the mark-to-market adjustment as of the balance sheet date.

Loss on extinguishment of debt

The Company recognized a \$1,059 loss on extinguishment of debt equal to the remaining unamortized portion of debt discount associated with the Acquisition Term Loan and Consolidation Term Loan as of May 23, 2024, the date the Company entered into the Credit Agreement.

Summary Unaudited Quarterly Financial Information

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

Quarters ended	Quarters Ended				
	June 30 2024	March 31 2024	December 31 2023	September 30 2023	June 30 2023
GAAP net (loss) income	\$ (615)	\$ (109)	\$ 1,419	\$ (1,931)	\$ (1,425)
Interest expense:					
Amortization of debt discount	209	360	366	363	358
Other interest, net	304	303	302	371	429
Depreciation/amortization:					
Amortization of intangible assets	878	790	781	766	754
Amortization of employee share-based awards	3	3	4	3	151
Depreciation of property & equipment	52	49	48	50	43
Income tax (benefit) expense	25	9	10	(15)	45
EBITDA	<u>\$ 856</u>	<u>\$ 1,405</u>	<u>\$ 2,930</u>	<u>\$ (393)</u>	<u>\$ 355</u>
Adjustments					
Loss (Gain) on fair value of contingent consideration	(408)	(604)	(42)	1,369	16
Loss on debt extinguishment	1,059	-	-	-	-
Stock-based compensation – Director grants	-	-	21	43	43
Other (income) expense	18	(35)	(79)	3	(123)
Adjusted EBITDA	<u>\$ 1,525</u>	<u>\$ 766</u>	<u>\$ 2,830</u>	<u>\$ 1,022</u>	<u>\$ 291</u>

Liquidity and Capital Resources

See [Note 1 Nature of Organization and Operations](#) to the accompanying Condensed Consolidated Financial Statements for a discussion of liquidity and financial resources.

Operating Activities

The net cash provided by operating activities during the six months ended June 30, 2024 was \$4,206, compared to \$6,344 for the same period in 2023. During the six month period ending June 30, 2024, the Company generated a net loss of \$699, which included depreciation and amortization expense (inclusive of amortization of debt discount) of \$1,769, a loss on the extinguishment of debt of \$1,059, and a gain on the change in fair value of contingent consideration of \$1,012. The Company generated a \$2,368 increase in cash as of June 30, 2024, provided by changes in operating assets and liabilities.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2024 was \$1,495, compared to \$2,203 during the same period in 2023. We currently do not have any material commitments for capital expenditures as of June 30, 2024. The reduction in capital expenditures in 2024 compared to the prior period was anticipated as the Company has been reducing third-party development resources utilized for the previously disclosed modernization and internationalization of our automotive platform, which launched to user acceptance testing during the second quarter of 2024.

Financing Activities

Net cash used in financing activities during the six months ended June 30, 2024 was \$1,535, compared to \$2,510 for the same period in 2023. Net cash used in financing activities during the six month period ended June 30, 2024 is primarily the result of the repayment of related party term debt totaling \$15,147, partially offset by proceeds from borrowings under the Company's revolving credit facility of \$13,860.

Off-Balance Sheet Arrangements

During the three and six months ended June 30, 2024, 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 June 30, 2024, and were 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 June 30, 2024 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 21, 2024, as amended on April 26, 2024, our Quarterly Report on Form 10-Q filed with the SEC on May 10, 2024, and subsequent filings made with the SEC. 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

Indemnification Agreements

On August 12, 2024, the Company entered into standard indemnification agreements with each of its directors and officers. The indemnification agreements may require the Company, among other things, to indemnify its directors and officers against certain liabilities that may arise by reason of their status or service as directors or officers, to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors' and officers' insurance if available on reasonable terms. The form of indemnification agreement is attached as Exhibit 10.6 to this report, the substance of which is incorporated by reference herein.

Rule 10b5-1 Trading Plans

During the quarter ended June 30, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement."

Earnings Release

On August 14, 2024, the Company issued a press release announcing its financial condition and results of operations for the three and six months ended June 30, 2024. 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 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

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	Credit Agreement dated May 23, 2024 by and among Creative Realities, Inc., First Merchants Bank and other parties thereto*	8-K	001-33169	10.1	May 28, 2024	—
10.2	\$22,100,000 Revolving Credit Note dated May 23, 2024	8-K	001-33169	10.2	May 28, 2024	—
10.3	Security Agreement dated May 23, 2024 by and among Creative Realities, Inc., First Merchants Bank and other parties thereto*	8-K	001-33169	10.3	May 28, 2024	—
10.4	Guaranty dated May 23, 2024 by Creative Realities Canada, Inc. in favor of First Merchants Bank*	8-K	001-33169	10.4	May 28, 2024	—
10.5	Security Agreement dated May 23, 2024 granted by Creative Realities Canada, Inc. in favor of First Merchants Bank*	8-K	001-33169	10.5	May 28, 2024	—
10.6	Form of Indemnification Agreement					X
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).					X
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).					X
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.					X
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.					X
99.1	Press Release dated August 14, 2024					X
101.INS	Inline XBRL Instance Document					X
101.SCH	Inline XBRL Taxonomy Extension Schema.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).					X

* Pursuant to Item 601(a)(5) of Regulation S-K, the exhibits and schedules to Exhibits 10.1, 10.3, 10.4 and 10.5 have been omitted from this report and will be furnished supplementally to the Commission upon request.

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: August 14, 2024

Creative Realities, Inc.

By /s/ Richard Mills
Richard Mills
Chief Executive Officer

By /s/ Will Logan
Will Logan
Chief Financial Officer

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (the “**Agreement**”) is made and entered into as of August 12, 2024 by and among Creative Realities, Inc., a Minnesota corporation (the “**Company**”), and [●] (the “**Indemnitee**”).

WITNESSETH THAT:

WHEREAS, highly competent persons have become more reluctant to serve corporations as officers, directors or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation;

WHEREAS, the Board of Directors of the Company (the “**Board**”) has determined that, in order to attract and retain the services of qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities. Although the furnishing of such insurance has been a customary and widespread practice among United States-based corporations and other business enterprises, the Company believes that, given current market conditions and trends, such insurance may be available to it in the future only at higher premiums and with more exclusions. At the same time, directors, officers, and other persons in service to corporations or business enterprises are being increasingly subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the Company or business enterprise itself. The Bylaws and Articles of Incorporation of the Company require indemnification of the employees, officers and directors of the Company. Indemnitee may also be entitled to indemnification pursuant to the Minnesota Business Corporation Act (“**MBCA**”). The Bylaws, Articles of Incorporation and the MBCA expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the Board, officers and other persons with respect to indemnification;

WHEREAS, the uncertainties relating to such insurance and to indemnification have increased the difficulty of attracting and retaining such persons;

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining such persons is detrimental to the best interests of the Company’s shareholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, this Agreement is a supplement to and in furtherance of the Bylaws and Articles of Incorporation of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder; and

WHEREAS, Indemnitee does not regard the protection available under the Bylaws and Articles of Incorporation of the Company and insurance as adequate in the present circumstances, and may not be willing to serve as an officer, director or employee of the Company without adequate protection, and the Company desires Indemnitee to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that he or she be so indemnified;

NOW, THEREFORE, in consideration of Indemnitee's agreement to continue serving as an officer, director or employee of the Company from and after the date hereof, the parties hereto agree as follows:

1. Indemnity of Indemnitee. The Company hereby agrees to hold harmless and indemnify Indemnitee to the fullest extent permitted by law, as such may be amended from time to time. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) Proceedings Other Than Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(a) if, by reason of his or her Corporate Status (as hereinafter defined), the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (as hereinafter defined) other than a Proceeding by or in the right of the Company. Pursuant to this Section 1(a), Indemnitee shall be indemnified against all Expenses (as hereinafter defined), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or her, or on his or her behalf, in connection with such Proceeding or any claim, issue or matter therein, if the Indemnitee (i) has not been indemnified by another organization or employee benefit plan for such amounts, (ii) acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, (iii) received no improper personal benefit, and (iv) with respect to any criminal Proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful.

(b) Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(b) if, by reason of his or her Corporate Status, the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company. Pursuant to this Section 1(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee, or on the Indemnitee's behalf, in connection with such Proceeding if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; provided, however, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and to the extent that the State Courts of the State of Minnesota shall determine that such indemnification may be made.

(c) Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a party to (or participant in) and is successful, on the merits or otherwise, in any Proceeding, he or she shall be indemnified to the maximum extent permitted by law, as such may be amended from time to time, against all Expenses actually and reasonably incurred by him or her, or on his or her behalf, in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one (1) or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or her, or on his or her behalf, in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

(d) Intentionally Omitted.

(e) Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

2. Additional Indemnity. In addition to, and without regard to any limitations on, the indemnification provided for in Section 1 of this Agreement, the Company shall and hereby does indemnify and hold harmless Indemnitee against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or her, or on his or her behalf, if, by reason of his or her Corporate Status, he or she is, or is threatened to be made, a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company), including, without limitation, all liability arising out of the negligence or active or passive wrongdoing of Indemnitee. The only limitation that shall exist upon the Company's obligations pursuant to this Agreement shall be that the Company shall not be obligated to make any payment to Indemnitee that is finally determined (under the procedures, and subject to the presumptions, set forth in Sections 6 and 7 hereof) to be unlawful.

3. Contribution.

(a) Whether or not the indemnification provided in Sections 1 and 2 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction or events from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the transaction or events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which applicable law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors, or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

4. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a witness, or is made (or asked) to respond to discovery requests, in any Proceeding to which Indemnitee is not a party, he or she shall be indemnified against all Expenses actually and reasonably incurred by him or her, or on his or her behalf, in connection therewith.

5. Advancement of Expenses. Notwithstanding any other provision of this Agreement, the Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding by reason of Indemnitee's Corporate Status within thirty (30) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advances and undertakings to repay pursuant to this Section 5 shall be unsecured and interest free. This Section 5 shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 9.

6. Procedures and Presumptions for Determination of Entitlement to Indemnification. It is the intent of this Agreement to secure for Indemnitee rights of indemnity that are as favorable as may be permitted under the MBCA and public policy of the State of Minnesota. Accordingly, the parties agree that the following procedures and presumptions shall apply in the event of any question as to whether Indemnitee is entitled to indemnification under this Agreement:

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Chief Financial Officer of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification. Notwithstanding the foregoing, any failure of Indemnitee to provide such a request to the Company, or to provide such a request in a timely fashion, shall not relieve the Company of any liability that it may have to Indemnitee unless, and to the extent that, such failure actually and materially prejudices the interests of the Company. The Company will be entitled to participate in the Proceeding at its own Expense.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case by one of methods prescribed by Section 302A.521, Subd. 6(a) of the MBCA.

(c) If the determination of entitlement to indemnification is to be made by Special Legal Counsel pursuant to Section 6(b) hereof, the Special Legal Counsel shall be selected as provided in this Section 6(c). The Special Legal Counsel shall be selected by the Board. Indemnitee may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Special Legal Counsel so selected does not meet the requirements of "**Special Legal Counsel**" as defined in Section 13 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Special Legal Counsel. If a written objection is made and substantiated, the Special Legal Counsel selected may not serve as Special Legal Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Special Legal Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the District Court of the State of Minnesota ("**Minnesota Court**") or other court of competent jurisdiction for resolution of any objection which shall have been made by the Indemnitee to the Company's selection of Special Legal Counsel and/or for the appointment as Special Legal Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Special Legal Counsel under Section 6(b) hereof. The Company shall pay any and all reasonable fees and expenses of Special Legal Counsel incurred by such Special Legal Counsel in connection with acting pursuant to Section 6(b) hereof, and the Company shall pay all reasonable fees and expenses incurred by the Company and the Indemnitee incident to the procedures of this Section 6(c), regardless of the manner in which such Special Legal Counsel was selected or appointed.

(d) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Neither the failure of the Company (including by its directors or independent legal counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or independent legal counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(e) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise (as hereinafter defined), including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. The provisions of this Section 6(e) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this Section 6(e) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(f) If the person, persons or entity empowered or selected under Section 6 to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such sixty (60) day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making such determination with respect to entitlement to indemnification in good faith requires such additional time to obtain or evaluate documentation and/or information relating thereto; and provided further, that the foregoing provisions of this Section 6(f) shall not apply if the determination of entitlement to indemnification is to be made by the shareholders pursuant to Section 6(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination, the Board or the Disinterested Directors, if appropriate, resolve to submit such determination to the shareholders for their consideration at an annual meeting thereof to be held within seventy five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of shareholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat.

(g) Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Special Legal Counsel, member of the Board or shareholder of the Company shall act reasonably and in good faith in making a determination regarding the Indemnitee's entitlement to indemnification under this Agreement. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(h) In the event that any action, suit or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, suit or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(i) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

7. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 5 of this Agreement, (iii) no determination of entitlement to indemnification is made pursuant to Section 6(b) of this Agreement within ninety (90) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Sections 1(c), 1(e), 4 or the last sentence of Section 6(g) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, or (v) payment of indemnification is not made pursuant to Sections 1(a), 1(b) and 2 of this Agreement within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 6 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Minnesota, or in any other court of competent jurisdiction, of Indemnitee's entitlement to such indemnification. Indemnitee shall commence such proceeding seeking an adjudication within one hundred eighty (180) days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 7(a). The Company shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section 7 shall be conducted in all respects as a de novo trial on the merits, and Indemnitee shall not be prejudiced by reason of the adverse determination under Section 6(b).

(c) If a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 7, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's misstatement not materially misleading in connection with the application for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 7, seeks a judicial adjudication of his or her rights under, or to recover damages for breach of, this Agreement, or to recover under any directors' and officers' liability insurance policies maintained by the Company, the Company shall pay on his or her behalf, in advance, any and all expenses (of the types described in the definition of Expenses in Section 13 of this Agreement) actually and reasonably incurred by him or her in such judicial adjudication, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of expenses or insurance recovery.

(e) The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 7 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement. It is the intent of the Company that, to the fullest extent permitted by law, the Indemnitee not be required to incur legal fees or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Indemnitee hereunder. The Company shall indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefore) advance, to the extent not prohibited by law, such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advance of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company, if, in the case of indemnification, Indemnitee is wholly successful on the underlying claims; if Indemnitee is not wholly successful on the underlying claims, then such indemnification shall be only to the extent Indemnitee is successful on such underlying claims or otherwise as permitted by law, whichever is greater.

(f) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

8. Non-Exclusivity; Survival of Rights; Insurance; Primacy of Indemnification; Subrogation.

(a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Articles of Incorporation, the Bylaws, any agreement, a vote of shareholders, a resolution of directors of the Company, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the MBCA, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Articles of Incorporation and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents or fiduciaries of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any director, officer, employee, agent or fiduciary under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(e) The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

9. Exception to Right of Indemnification. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision; or

(b) for (i) an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law, (ii) any reimbursement of the Company by the Indemnitee of any bonus or other incentive-based or equity-based compensation or of any profits realized by the Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the “**Sarbanes-Oxley Act**”), or the payment to the Company of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act) or (iii) any reimbursement of the Company by Indemnitee of any compensation pursuant to any compensation recoupment or clawback policy adopted by the Board or the compensation committee of the Board, including but not limited to any such policy adopted to comply with stock exchange listing requirements implementing Section 10D of the Exchange Act; or

(c) except as provided in Section 7(e) of this Agreement, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation, (ii) such payment arises in connection with any mandatory counterclaim or cross claim brought or raised by Indemnitee in any Proceeding (or any part of any Proceeding) or (iii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

10. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an officer or director of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any Proceeding (or any proceeding commenced under Section 7 hereof) by reason of his or her Corporate Status, whether or not he or she is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), assigns, spouses, heirs, executors and personal and legal representatives.

11. Security. To the extent requested by Indemnitee and approved by the Board, the Company may at any time and from time to time provide security to Indemnitee for the Company’s obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of the Indemnitee.

12. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumes the obligations imposed on it hereby in order to induce Indemnitee to continue serving as an employee, officer or director of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as an employee, officer or director of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

(c) The Company shall not seek from a court, or agree to, a “bar order” which would have the effect of prohibiting or limiting the Indemnitee’s rights to receive advancement of Expenses under this Agreement.

13. Definitions. For purposes of this Agreement:

(a) “**Corporate Status**” describes the status of a person who is or was a director, officer, employee, agent, or fiduciary of the Company or of any other Enterprise.

(b) “**Disinterested Director**” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(c) “**Enterprise**” shall mean the Company and any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that Indemnitee is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary.

(d) “**Expenses**” shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses also shall include (i) Expenses incurred in connection with any appeal resulting from any Proceeding, including, without limitation, the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent (ii) Expenses incurred in connection with recovery under any directors’ and officers’ liability insurance policies maintained by the Company, regardless of whether Indemnitee is ultimately determined to be entitled to such indemnification, advancement or Expenses or insurance recovery, as the case may be, and (iii) for purposes of Section 7(e) only, Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee’s rights under this Agreement, the Articles of Incorporation, the Bylaws or under any directors’ and officers’ liability insurance policies maintained by the Company, by litigation or otherwise. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(e) “**Proceeding**” includes any threatened, pending or completed action, suit, claim, counterclaim, cross claim, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative, arbitration, or investigative, including any appeal therefrom, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of his or her Corporate Status, by reason of any action taken by him or her, or of any inaction on his or her part, while acting in his or her Corporate Status; in each case whether or not he or she is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification, reimbursement or advancement of expenses can be provided under this Agreement; including one pending on or before the date of this Agreement, but excluding one initiated by an Indemnitee pursuant to Section 7 of this Agreement to enforce his or her rights under this Agreement.

(f) “**Special Legal Counsel**” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither at present is, nor in the past five (5) years has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Special Legal Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees of the Special Legal Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

14. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision. Further, the invalidity or unenforceability of any provision hereof as to Indemnitee shall in no way affect the validity or enforceability of any provision hereof as to the other. Without limiting the generality of the foregoing, this Agreement is intended to confer upon Indemnitee indemnification rights to the fullest extent permitted by applicable laws. In the event any provision hereof conflicts with any applicable law, such provision shall be deemed modified, consistent with the aforementioned intent, to the extent necessary to resolve such conflict.

15. Modification and Waiver. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

16. Notice By Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with or otherwise receiving any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnitee under this Agreement or otherwise unless and only to the extent that such failure or delay materially prejudices the Company.

17. Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail if sent during normal business hours of the recipient, and if not so confirmed, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent:

(a) To Indemnitee at the address set forth below Indemnitee signature hereto.

(b) To the Company at:

Creative Realities
13100 Magisterial Drive, Suite 100
Louisville, KY 40223
Attention: Will Logan, *Chief Financial Officer*

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

18. Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same the same instrument. Counterparts may be delivered via electronic mail (including pdf or any electronic signature complying with the U.S. federal E-SIGN Act of 2000, *e.g.*, www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

19. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

20. Governing Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Minnesota, without regard to its conflict of laws rules. The Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Minnesota Court, and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Minnesota Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Minnesota Court, and (v) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Minnesota Court has been brought in an improper or inconvenient forum.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement on and as of the day and year first above written.

CREATIVE REALITIES, INC.

By: _____
Name: _____
Title: _____

INDEMNITEE

Name: [●]

Address: _____

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

I, Richard Mills, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three and six months ended June 30, 2024, 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: August 14, 2024

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 quarterly report on Form 10-Q for the three and six months ended June 30, 2024, 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: August 14, 2024

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 Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and six months ended June 30, 2024, 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: August 14, 2024

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 Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and six months ended June 30, 2024, 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: August 14, 2024

By: /s/ Will Logan

Will Logan
Chief Financial Officer

FOR IMMEDIATE RELEASE**Creative Realities Reports Fiscal 2024 Second Quarter Results***43% Year-over-Year Top Line Growth; Refinancing Complete*

LOUISVILLE, KY – August 14, 2024 – Creative Realities, Inc. (“Creative Realities,” “CRI,” or the “Company”) (NASDAQ: CREX), a leading provider of digital signage and media solutions, today announced its financial results for the fiscal second quarter ended June 30, 2024.

Highlights:

- Record second quarter revenue of \$13.1 million, up 43% from \$9.2 million in the prior-year period
- Gross profit of \$6.8 million for the three months ended June 30, 2024 versus \$4.3 million in the second quarter of fiscal 2023
- Adjusted EBITDA* of \$1.5 million for the second quarter of 2024 versus \$0.3 million in the prior-year period
- Annual recurring revenue (“ARR”) of approximately \$18.0 million at the end of the second quarter versus \$17.7 million as of March 31, 2024
- On May 28, Creative Realities completed the previously-announced agreement with First Merchants Bank (“FMB”) for a \$22.1 million senior secured revolving credit facility (the “Revolver”) with a \$5 million accordion feature; the Revolver was used to pay off all of the Company’s \$13.6 million of existing indebtedness

“Second quarter results exceeded the first, as momentum and accelerating demand continue to drive us towards a solid finish for fiscal 2024,” said Rick Mills, Chief Executive Officer. “Revenue grew 43% year-over-year, reflecting positive trends across all parts of the business, and gross margins rose to 51.8% as we realized economies of scale and improved asset utilization. At the same time, our annual recurring revenue climbed to approximately \$18.0 million at the end of the quarter – positioning us well to reach prior guidance – and the Company generated over \$2 million of operating cash during the period.

“We also completed our previously-announced debt refinancing in May, consisting of a \$22.1 million Revolver with a \$5 million accordion, ending the quarter with \$13.8 million in debt. We remain committed to a strategy of using operating cash flow to reduce overall indebtedness and strengthen the balance sheet, leading to reduced leverage and increased financial flexibility to explore strategic transactions. We’re well on our way to record performance this year, with the tools in place for even greater results – and increased shareholder value – heading into fiscal 2025 and beyond.”

*Adjusted EBITDA is a non-GAAP financial measure. A reconciliation is provided in the tables of this press release.

2024 Second Quarter Financial Results

Sales were \$13.1 million for the fiscal 2024 second quarter, an increase of \$3.9 million, or 43%, as compared to the same period in fiscal 2023. Hardware revenue was \$5.0 million, versus \$3.4 million in the prior-year period, while service revenue rose to \$8.1 million from \$5.8 million in fiscal 2023. Both areas of the business saw substantial growth year-over-year due to strong demand and higher installations.

Consolidated gross profit was \$6.8 million for the fiscal 2024 second quarter versus \$4.3 million in the prior-year period, and consolidated gross margin was 51.8% versus 46.7% in the fiscal 2023 second quarter. Gross margin on hardware revenue was 30.1% in fiscal 2024 as compared to 20.7% in the prior-year period, reflecting improved economies of scale. Gross margin on service amounted to 65.2%, versus 62.3% in the fiscal 2023 second quarter. The Company anticipates further margin expansion as revenue expands more quickly than the associated cost of deployment and support of those enhanced levels of revenue. Software subscription run-rates continued to rise, and the Company ended the quarter with record ARR of approximately \$18.0 million on an annualized run rate.

Sales and marketing expenses in the second quarter rose to \$1.7 million, versus \$1.2 million in the prior-year period, reflecting enhanced investment in business development activities. Second quarter general and administrative expenses were \$4.5 million, up from \$3.8 in fiscal 2023, primarily reflecting increases in deployment personnel and the implementation of a new ERP system. The Company anticipates these costs to trend lower as it enters calendar 2025 and sunsets legacy applications for which activities have been or will be migrated to the new infrastructure and applications.

The Company posted operating income of approximately \$0.6 million in the second quarter of fiscal 2024 compared to an operating loss of \$0.7 million in fiscal 2023. CRI reported a net loss of \$0.6 million, or \$(0.06) per diluted share, in the quarter ended June 30, 2024 versus a net loss of \$1.4 million, or \$(0.19) per diluted share, in the prior-year period.

Adjusted EBITDA (defined later in this release) was \$1.5 million in the second quarter of 2024 as compared to \$0.3 million in the prior-year period.

Balance Sheet

As of June 30, 2024, the Company had cash on hand of approximately \$4.1 million, versus \$2.9 million at December 31, 2023. The Company had outstanding debt of approximately \$13.8 million as of June 30, 2024 versus \$15.1 million at the start of the fiscal year and, as of the date of this release, the Company's net debt was approximately \$9.8 million. Following the refinancing of its debt during the quarter, CRI continued to pay down its revolving credit facility with a focus to lower the Company's leverage ratio. As of the end of the second quarter, the trailing twelve-month gross and net leverage ratios utilizing Adjusted EBITDA were 2.25x and 1.58x, respectively, versus 2.97x and 2.40x at the beginning of 2024. Net debt is equal to the Company's outstanding debt less cash on hand.

Conference Call Details

The Company will host a conference call to review the results of the second quarter 2024, and provide additional commentary about recent performance, today, August 14, at 9:00 am Eastern Time, which will include prepared remarks and materials from management, followed by a live Q&A. The call will be hosted by Rick Mills, Chief Executive Officer, and Will Logan, Chief Financial Officer.

Prior to the call, participants should register at <https://bit.ly/CRlearnings2024Q2>. Once registered, participants can use the weblink provided in the registration email to participate in the live webcast. An archived edition of the earnings conference call will also be posted on the Company's website later today and will remain available for one year.

About Creative Realities, Inc.

Creative Realities designs, develops and deploys digital signage-based experiences for enterprise-level networks utilizing its Clarity™, ReflectView™, and iShowroom™ Content Management System (CMS) platforms. The Company is actively providing recurring SaaS and support services across diverse vertical markets, including but not limited to retail, automotive, digital-out-of-home (DOOH) advertising networks, convenience stores, foodservice/QSR, gaming, theater, and stadium venues. In addition, the Company assists clients in utilizing place-based digital media to achieve business objectives such as increased revenue, enhanced customer experiences, and improved productivity. This includes the design, deployment, and day to day management of Retail Media Networks to monetize on-premise foot traffic utilizing its AdLogic™ programmatic advertising platform.

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 21, 2024.

Cautionary Note on Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, and includes, among other things, discussions of our business strategies, product releases, future operations and capital resources. Words such as "estimates," "projected," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," "future," "propose" and variations of these words or similar expressions (or the negative versions of such words or expressions) are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance, conditions or results. They are based on the opinions, estimates and beliefs of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties, assumptions and other factors, many of which are outside of our control, that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Some of these risks are discussed in the "Risk Factors" section contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, as amended, and the Company's subsequent filings with the U.S. Securities and Exchange Commission. Important factors, among others, that may affect actual results or outcomes include: our ability to consummate the refinancing arrangement; our strategy for customer retention, growth, product development, market position, financial results and reserves, our ability to execute on our business plan, our ability to retain key personnel, our ability to remain listed on the Nasdaq Capital Market, our ability to realize the revenues included in our future guidance and backlog reports, our ability to satisfy our upcoming debt obligations, contingent liabilities and other liabilities, the ability of the Company to continue as a going concern, potential litigation, supply chain shortages, and general economic and market conditions impacting demand for our products and services. Readers should not place undue reliance upon any forward-looking statements. We assume no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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

	June 30, 2024	December 31, 2023
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,086	\$ 2,910
Accounts receivable, net	9,491	12,468
Inventories, net	2,995	2,567
Prepaid expenses and other current assets	964	665
Total Current Assets	\$ 17,536	\$ 18,610
Property and equipment, net	418	499
Goodwill	26,453	26,453
Other intangible assets, net	23,745	24,062
Operating lease right-of-use assets	1,009	1,041
Other non-current assets	393	112
Total Assets	\$ 69,554	\$ 70,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 5,205	\$ 7,876
Accrued expenses and other current liabilities	4,345	3,761
Deferred revenues	2,946	1,132
Customer deposits	3,585	3,233
Current maturities of operating leases	449	505
Short-term portion of related party term debt	-	3,690
Short-term portion of contingent consideration, at fair value	10,196	-
Total Current Liabilities	26,726	20,197
Revolving credit facility	13,819	-
Long-term related party term debt	-	9,829
Long-term obligations under operating leases	585	536
Long-term contingent consideration, at fair value	-	11,208
Other non-current liabilities	187	176
Total Liabilities	41,317	41,946
Shareholders' Equity		
Common stock, \$0.01 par value, 66,666 shares authorized; 10,447 and 10,409 shares issued and outstanding, respectively	104	104
Additional paid-in capital	82,203	82,073
Accumulated deficit	(54,070)	(53,346)
Total Shareholders' Equity	28,237	28,831
Total Liabilities and Shareholders' Equity	\$ 69,554	\$ 70,777

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Sales				
Hardware	\$ 5,024	\$ 3,437	\$ 9,168	\$ 7,759
Services and other	8,091	5,759	16,232	11,381
Total sales	<u>13,115</u>	<u>9,196</u>	<u>25,400</u>	<u>19,140</u>
Cost of sales				
Hardware	3,510	2,724	6,703	5,930
Services and other	2,817	2,174	6,145	3,823
Total cost of sales	<u>6,327</u>	<u>4,898</u>	<u>12,848</u>	<u>9,753</u>
Gross profit	<u>6,788</u>	<u>4,298</u>	<u>12,552</u>	<u>9,387</u>
Operating expenses:				
Sales and marketing expenses	1,665	1,229	3,130	2,365
General and administrative expenses	4,531	3,769	8,906	7,812
Total operating expenses	<u>6,196</u>	<u>4,998</u>	<u>12,036</u>	<u>10,177</u>
Operating income (loss)	<u>592</u>	<u>(700)</u>	<u>516</u>	<u>(790)</u>
Other expenses (income):				
Interest expense, including amortization of debt discount	513	787	1,176	1,590
Change in fair value of contingent consideration	(408)	16	(1,012)	92
Loss on debt extinguishment	1,059	-	1,059	-
Other expense (income)	18	(123)	(17)	(135)
Total other expenses (income)	<u>1,182</u>	<u>680</u>	<u>1,206</u>	<u>1,547</u>
Net loss before income taxes	<u>(590)</u>	<u>(1,380)</u>	<u>(690)</u>	<u>(2,337)</u>
Provision for income taxes	<u>(25)</u>	<u>(45)</u>	<u>(34)</u>	<u>(88)</u>
Net loss	<u>\$ (615)</u>	<u>\$ (1,425)</u>	<u>\$ (724)</u>	<u>\$ (2,425)</u>
Basic loss per common share	<u>\$ (0.06)</u>	<u>\$ (0.19)</u>	<u>\$ (0.07)</u>	<u>\$ (0.33)</u>
Diluted loss per common share	<u>\$ (0.06)</u>	<u>\$ (0.19)</u>	<u>\$ (0.07)</u>	<u>\$ (0.33)</u>
Weighted average shares outstanding - basic	<u>10,447</u>	<u>7,406</u>	<u>10,434</u>	<u>7,379</u>
Weighted average shares outstanding - diluted	<u>10,447</u>	<u>7,406</u>	<u>10,434</u>	<u>7,379</u>

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

	Six Months Ended June 30,	
	2024	2023
Operating Activities:		
Net loss	\$ (724)	\$ (2,425)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	1,769	1,576
Amortization of debt discount	569	714
Amortization of stock-based compensation	6	493
Amortization of deferred financing costs	12	-
Loss on extinguishment of debt	1,059	-
Bad debt expense	130	309
Provision for inventory reserve	(49)	127
(Gain) loss on change in fair value of contingent consideration	(1,012)	92
Deferred income taxes	23	46
Changes to operating assets and liabilities:		
Accounts receivable	2,847	1,458
Inventories, net	(379)	992
Prepaid expenses and other current assets	(299)	1,035
Accounts payable	(2,630)	(585)
Accrued expenses and other current liabilities	705	(559)
Deferred revenue	1,814	1,604
Customer deposits	352	1,507
Other, net	13	(40)
Net cash provided by operating activities	4,206	6,344
Investing activities		
Purchases of property and equipment	(8)	(219)
Capitalization of labor for software development	(1,487)	(1,984)
Net cash used in investing activities	(1,495)	(2,203)
Financing activities		
Proceeds from borrowings under revolving credit facility	13,860	-
Repayment of borrowings under revolving credit facility	(41)	-
Payment of deferred financing costs	(186)	-
Repayment of term debt	(15,147)	(2,504)
Principal payments on finance leases	(21)	(6)
Net cash used in financing activities	(1,535)	(2,510)
Increase in Cash and Cash Equivalents	1,176	1,631
Cash and Cash Equivalents, beginning of period	2,910	1,633
Cash and Cash Equivalents, end of period	\$ 4,086	\$ 3,264

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				
	June 30 2024	March 31 2024	December 31 2023	September 30 2023	June 30 2023
GAAP net (loss) income	\$ (615)	\$ (109)	\$ 1,419	\$ (1,931)	\$ (1,425)
Interest expense:					
Amortization of debt discount	209	360	366	363	358
Other interest, net	304	303	302	371	429
Depreciation/amortization:					
Amortization of intangible assets	878	790	781	766	754
Amortization of employee share-based awards	3	3	4	3	151
Depreciation of property & equipment	52	49	48	50	43
Income tax (benefit) expense	25	9	10	(15)	45
EBITDA	<u>\$ 856</u>	<u>\$ 1,405</u>	<u>\$ 2,930</u>	<u>\$ (393)</u>	<u>\$ 355</u>
Adjustments					
Loss (Gain) on fair value of contingent consideration	(408)	(604)	(42)	1,369	16
Loss on debt extinguishment	1,059	-	-	-	-
Stock-based compensation – Director grants	-	-	21	43	43
Other (income) expense	18	(35)	(79)	3	(123)
Adjusted EBITDA	<u>\$ 1,525</u>	<u>\$ 766</u>	<u>\$ 2,830</u>	<u>\$ 1,022</u>	<u>\$ 291</u>