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 March 31, 2022

or

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

For the transition period from _________ to _________

Commission File Number 001-33169

Creative Realities, Inc.

(Exact Name of Registrant as Specified in its Charter)

Minnesota	**41-1967918**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
13100 Magisterial Drive, Suite 100, Louisville KY	**40223**
Address of Principal Executive Offices	Zip Code

(502) 791-8800
Registrant's Telephone Number, Including Area Code

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-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 May 16, 2022, the registrant had 21,674,986 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)

	March 31, 2022	December 31, 2021
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,988	$ 2,883
Accounts receivable, net of allowance of $808 and $620, respectively	8,806	3,006
Unbilled receivables	-	369
Work-in-process and inventories, net	2,024	1,880
Prepaid expenses and other current assets	2,325	1,634
Total current assets	$ 19,143	$ 9,772
Operating lease right-of-use assets	1,073	654
Property and equipment, net	154	75
Intangibles, net	26,445	4,850
Goodwill	16,012	7,525
Other assets	52	5
TOTAL ASSETS	$ 62,879	$ 22,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term seller note payable	$ 2,396	$ -
Accounts payable	4,881	2,517
Accrued expenses	2,459	2,110
Deferred revenues	3,586	426
Customer deposits	2,973	1,525
Current maturities of operating and finance leases	560	281
Total current liabilities	16,855	6,859
Long-term Related Party Acquisition Term Loan, net of $2,010 and $0 discount, respectively	7,990	-
Long-term Related Party Consolidation Term Loan, net of $2,146 and $143 discount, respectively	5,039	4,624
Long-term related party convertible loans payable, at fair value	-	2,251
Warrant liability, at fair value	7,796	-
Contingent acquisition consideration, at fair value	5,600	-
Long-term obligations under operating leases	513	373
Other liabilities	26	45
TOTAL LIABILITIES	43,819	14,152
SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value, 200,000 shares authorized; 21,675 and 12,009 shares issued and outstanding, respectively	217	120
Additional paid-in capital	68,626	60,863
Accumulated deficit	(49,783)	(52,254)
Total shareholders' equity	19,060	8,729
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 62,879	$ 22,881

See accompanying notes to condensed consolidated financial statements

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

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021
Sales		
Hardware	$ 6,459	$ 2,816
Services and other	4,298	2,188
Total sales	10,757	5,004
Cost of sales		
Hardware	5,382	1,914
Services and other	1,483	856
Total cost of sales	6,865	2,770
Gross profit	3,892	2,234
Operating expenses:		
Sales and marketing	707	335
Research and development	241	171
General and administrative	2,754	2,109
Bad debt (recovery)/expense	106	(512)
Depreciation and amortization	707	344
Deal and transaction expenses	391	-
Total operating expenses	4,906	2,447
Operating loss	(1,014)	(213)
Other income/(expenses):		
Interest expense	(449)	(249)
Gain/(loss) on extinguishment/settlement of obligations	(295)	1,565
Change in fair value of special loan	-	166
Change in fair value of warrant liability	5,469	-
Loss on debt waiver consent	(1,212)	
Other income	6	4
Total other income	3,519	1,486
Income before income taxes	2,505	1,273
Benefit from/(provision for) income taxes	(3)	(1)
Net income	$ 2,502	$ 1,272
Basic earnings per common share	$ 0.17	$ 0.11
Diluted earnings per common share	$ 0.17	$ 0.11
Weighted average shares outstanding - basic	14,618	11,325
Weighted average shares outstanding - diluted	14,618	11,325

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	**2021**
Operating Activities:		
Net income	$ 2,502	$ 1,272
Adjustments to reconcile net income/(loss) to net cash used in operating activities		
Depreciation and amortization	707	344
Amortization of debt discount	181	72
Stock-based compensation	551	539
Gain on forgiveness of Paycheck Protection Program	-	(1,552)
Employee Retention and other Government Credits	16	-
Change in fair value of Convertible Loan	-	(166)
Loss on extinguishment of debt	295	-
Loss on debt waiver consent	1,212	-
Allowance for doubtful accounts	116	6
Increase in notes due to in-kind interest	-	158
Gain on change in fair value of warrants	(5,469)	-
Gain on settlement of obligations	-	(13)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled receivables	(3,724)	(1,491)
Inventories	52	225
Prepaid expenses and other current assets	855	(156)
Vendor deposits	(78)	-
Operating lease right-of-use assets, net	75	82
Other assets	(11)	(1)
Accounts payable	2,292	(101)
Deferred revenue	1,901	661
Accrued expenses	35	40
Deposits	(213)	150
Operating lease liabilities, net	(75)	(90)
Other liabilities	(19)	-
Net cash used in operating activities	1,201	(21)
Investing activities		
Purchases of property and equipment	(10)	(3)
Acquisition of a business, net of cash acquired	(17,184)	-
Capitalization of intern and external labor for software development	(775)	(112)
Net cash used in investing activities	(17,969)	(115)
Financing activities		
Principal payments on finance leases	-	(4)
Proceeds from sale of common stock in PIPE, net of offering expenses	1,814	-
Proceeds from sale and exercise of pre-funded warrants in PIPE, net of offering expenses	8,295	-
Proceeds from Acquisition Loan, net of offering expenses	9,868	-
Repayment of Seller Note	(104)	-
Proceeds from sale of shares via registered direct offering, net	-	1,849
Net cash provided by / (used in) financing activities	19,873	1,845
Increase/(decrease) in Cash and Cash Equivalents	3,105	1,709
Cash and Cash Equivalents, beginning of period	2,883	1,826
Cash and Cash Equivalents, end of period	$ 5,988	$ 3,535

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock				Additional paid in		Accumulated		
	Shares	Amount			capital		(Deficit)		Total
Balance as of December 31, 2021	12,008,519	$	120	$	60,863	$	(52,254)	$	8,729
Stock-based compensation	-		-		551		-		551
Shares issued and warrants exercised in private investment in public entity ("PIPE")	7,166,505		72		2,206		-		2,278
Shares issued in Reflect Systems, Inc. Merger	2,500,001		25		4,975		-		5,000
Warrant repricing events	-		-		31		(31)		-
Net income	-		-		-		2,502		2,502
Balance as of March 31, 2022	21,675,025	$	217	$	68,626	$	(49,783)	$	19,060

	Common Stock				Additional paid in		Accumulated		
	Shares	Amount			capital		(Deficit)		Total
Balance as of December 31, 2020	10,924,287	$	109	$	56,712	$	(52,486)	$	4,335
Stock-based compensation	-		-		514		-		514
Shares issued to directors as compensation	19,380		-		25		-		25
Conversion of Disbursed Escrow Loan	97,144		1		263		-		264
Gain on Extinguishment of Special Loan	-		-		26		-		26
Sales of Shares via registered direct offering, net of offering cost	800,000		8		1,841		-		1,849
Net income	-		-		-		1,272		1,272
Balance as of March 31, 2021	11,840,811	$	118	$	59,381	$	(51,214)	$	8,285

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS

Unless the context otherwise indicates, references in these Notes to the accompanying 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, Creative Realities Canada, Inc., a Canadian corporation, and Reflect Systems, Inc., a Delaware corporation.

Acquisition of Reflect

On November 12, 2021, the Company and Reflect Systems, Inc., or "Reflect," entered into an Agreement and Plan of Merger (as amended on as amended on February 8, 2022, the "Merger Agreement") pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, or "Merger Sub," would merge with and into Reflect, with Reflect surviving as a wholly owned subsidiary of Creative Realities, and the surviving company of the merger, which transaction is referred to herein as the "Merger." On February 17, 2022, the parties consummated the Merger.

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

Subject to the terms and conditions of the Merger Agreement, upon the closing of the Merger, Reflect stockholders as of the effective time of the Merger collectively received from the Company, in the aggregate, the following Merger consideration: (i) $16,166 in cash, (ii) 2,333,334 shares of common stock of Creative Realities (valued based on an issuance price of $2 per share) (the "CREX Shares"), (iii) the Secured Promissory Note (as described below), and (iv) supplemental cash payments (the "Guaranteed Consideration"), if any, payable on or after the three-year anniversary of the effective time of the Merger (subject to the Extension Option described below, the "Guarantee Date"), in an amount by which the value of the CREX Shares on such anniversary is less than $6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than $7.20 per share (such applicable amount, the "Guaranteed Price"), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below), subject to the terms of the Merger Agreement.

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

In connection with the Merger, the Company adopted a Retention Bonus Plan and raised capital to, among other things, pay the cash portion of the Merger consideration. The Retention Bonus Plan and financings are described below.

Retention Bonus Plan

On February 17, 2022, in connection with the closing of the Merger (the “Closing”), the Company adopted a Retention Bonus Plan, pursuant to which the Company is required to pay to key members of Reflect’s management team an aggregate of $1,333 in cash, which was paid 50% at the Closing, and subject to continuous employment with Reflect or Creative Realities, 25% on the one-year anniversary of Closing and 25% on the two-year anniversary of the Closing. The future cash payments due on the one-year and two-year anniversaries of the Closing have been deposited into an escrow agreement. The Retention Bonus Plan also requires the Company to issue Common Stock having an aggregate value of $667 to the plan participants as follows: 50% of the value of such shares were issued at the Closing, and subject to continuous employment with Reflect or Creative Realities, 25% of the value of such shares will be issued on the one-year anniversary of Closing and the remaining 25% of the value of such shares will be issued on the two-year anniversary of the Closing. The shares issued on the Closing were valued at $2.00 per share, and the shares to be issued after the Closing will be determined based on dividing the value of shares issuable on such date divided by the trailing 10-day volume weighted average price (VWAP) of the shares as of such date as reported on the Nasdaq Capital Market.

Upon the resignation of a participant’s employment for “good reason,” or termination of the employment of a participant without “cause,” each as defined in the Retention Bonus Plan, the participant will be fully vested and will receive all cash and shares allocated to such participant under the Retention Bonus Plan. Any amounts unpaid by reason of a lapse in continuous employment or otherwise will be reallocated among the remaining Retention Bonus Plan participants.

Equity Financing

On February 3, 2022, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with a purchaser (the “Purchaser”), pursuant to which the Company agreed to issue and sell to the Purchaser, in a private placement priced at-the-market under Nasdaq rules, (i) 1,315,000 shares (the “Shares”) of the Company’s common stock, par value $0.01 per share (the “Common Stock”) and accompanying warrants to purchase an aggregate of 1,315,000 shares of Common Stock, and (ii) pre-funded warrants to purchase up to an aggregate of 5,851,505 shares of Common Stock (the “Pre-Funded Warrants”) and accompanying warrants to purchase an aggregate of 5,851,505 shares of Common Stock (collectively, the “Private Placement”). The accompanying warrants to purchase Common Stock are referred to herein collectively as the “Common Stock Warrants.” Under the Securities Purchase Agreement, each Share and accompanying warrants to purchase Common Stock were sold together at a combined price of $1.535, and each Pre-Funded Warrant and accompanying warrants to purchase Common Stock were sold together at a combined price of $1.5349, for gross proceeds of approximately $11,000 before deducting placement agent fees and offering expenses payable by the Company. Net proceeds to the Company were $10,160. The remaining exercise price for the Pre-Funded Warrant was $0.0001. Collectively, we refer to this transaction throughout this filing as the “Equity Financing”. The net proceeds from the Private Placement were used to fund, in part, payment of the closing cash consideration in the Merger.

Debt Financing

On February 17, 2022, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream Communications, LLC (“Slipstream”), pursuant to a Second Amended and Restated Credit and Security Agreement (the “Credit Agreement”), and raised $10,000 in gross proceeds with a maturity date of February 1, 2025. The Credit Agreement also provides that the Company’s outstanding loans from Slipstream, consisting of its pre-existing $4,767 senior secured term loan and $2,418 secured convertible loan, with an aggregate of $7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a Consolidation Term Loan with a maturity date of February 1, 2025. Collectively, we refer to this transaction throughout this filing as the “Debt Financing”. The net proceeds from the Credit Agreement were used to fund, in part, payment of the closing cash consideration in the Merger, and the cash payable under the terms of the Retention Bonus Plan at the Closing.

On February 17, 2022, in connection with the closing of the acquisition of Reflect, the Company issued to the representative of Reflect stockholders, RSI Exit Corporation ("Stockholders' Representative"), a $2,500 Note and Security Agreement (the "Secured Promissory Note"). The Secured Promissory Note accrues interest at 0.59% (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of $104 on the fifteenth (15th) day of each month, commencing on March 15, 2022, Any remaining or unpaid principal is due and payable on February 17, 2023. The Secured Promissory Notes represents consideration in the Merger and is included as part of the purchase price.

See Note 8 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company's debt obligations and further discussion of the Company's refinancing activities subsequent to December 31, 2021.

Liquidity and Financial Condition

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

We produced positive net income for the three months ended March 31, 2022 and for the year ended December 31, 2021 and had positive cash flows from operating activities for both periods. As of March 31, 2022, we had cash and cash equivalents of $5,988 and a working capital surplus of $2,288.

Management believes that, based on (i) the execution of the Equity Financing, (ii) the refinancing of our debt as part of the Debt Financing, including extension of the maturity date on our term loans, and (iii) our operational forecast through 2022 following completion of the Merger, that we can continue as a going concern through at least March 31, 2023. However, given our historical net losses and cash used in operating activities, we obtained a continued support letter from Slipstream through May 16, 2023. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the applicable instructions to Form 10-Q and Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2021, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2022.

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

2. Revenue Recognition

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

If an arrangement involves multiple performance obligations, the items are analyzed to determine the separate units of accounting, whether the items have value on a standalone basis and whether there is objective and reliable evidence of their standalone selling price. The total contract transaction price is allocated to the identified performance obligations based upon the relative standalone selling prices of the performance obligations. The standalone selling price is based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost plus margin approach. See Note 4 *Revenue* for additional detail and discussion of the Company's performance obligations.

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

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

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

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

3. Inventories

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

	March 31, 2022	December 31, 2021
Raw materials, including those on consignment, net of reserve of $628 and $502, respectively	$ 1,765	$ 1,583
Work-in-process	259	297
Total inventories	$ 2,024	$ 1,880

4. Impairment of Long-Lived Assets

We review the carrying value of all long-lived assets, including property and equipment, for impairment in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under ASC 360, impairment losses are recorded whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We evaluated whether there were any triggering events for consideration of impairment of our long-lived assets as of March 31, 2022 and concluded there were none.

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

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

Basic and diluted earnings/(loss) per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding includes only outstanding common shares. Diluted weighted average shares outstanding includes outstanding common shares and potential dilutive common shares outstanding in accordance with the treasury stock method. Shares reserved for outstanding stock options and warrants totaling 20,732,886 at March 31, 2022 were excluded from the computation of income/(loss) per share as no stock options or warrants were in-the-money as of March 31, 2022. Shares reserved for outstanding stock options and warrants totaling 7,032,375 at March 31, 2021 were excluded from the computation of income/(loss) per share as no stock options or warrants were in-the-money as of March 31, 2021. In calculating diluted earnings per share for the three months ended March 31, 2021, in accordance with ASC 260 *Earnings per share*, we excluded the dilutive effect of the potential issuance of common stock upon an assumed conversion of the Convertible Loan as we had the intent and ability to settle the debt in cash.

6. Income Taxes

Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from net operating losses, differences in basis of intangibles, stock-based compensation, reserves for uncollectible accounts receivable and inventory, differences in depreciation methods, and accrued expenses. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company accounts for uncertain tax positions utilizing an established recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We had no uncertain tax positions as of March 31, 2022 and December 31, 2021.

7. Goodwill and Definite-Lived Intangible Assets

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

Definite-lived intangible assets are amortized straight-line in accordance with their identified useful lives. Pursuant to ASC 350, these intangible assets are evaluated for impairment at least annually, or as indicators of impairment are identified.

8. Use of Estimates

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

9. Leases

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

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

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

10. Business Combinations

Accounting for acquisitions requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations. Refer to Note 5, *Business Combination* for a discussion of the accounting for the Merger.

NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently adopted

On January 1, 2022, we early adopted Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (ASU 2021-08), which clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers (Topic 606)*. The adoption of this new standard did not have a material impact on our condensed consolidated financial statements.

Not yet adopted

In August 2020, the FASB issued Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06)*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. This guidance will be effective for us in the first quarter of 2024 on a full or modified retrospective basis, with early adoption permitted. We are currently evaluating the disclosure requirements and potential impact on our consolidated financial statements.

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

NOTE 4: REVENUE RECOGNITION

The Company applies ASC 606 for revenue recognition. The following table disaggregates the Company's revenue by major source for the three months ended March 31, 2022 and 2021:

(in thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Hardware	$ 6,459	$ 2,816
Services:		
Installation Services	1,339	575
Software Development Services	191	274
Media Sales	65	-
Managed Services	2,703	1,339
Total Services	4,298	2,188
Total Hardware and Services	$ 10,757	$ 5,004

The italicized headers within this footnote represent separate performance obligations the Company may sell. When a contract includes more than one such element, the Company bifurcates these performance obligations according to our accounting policy and separately accounts for each.

System hardware sales

System hardware revenue is recognized generally upon shipment of the product or customer acceptance depending upon contractual arrangements with the customer. When hardware revenue is an element in a multiple-element performance obligation, including those sales in which the Company has bundled installation services, the recognition of system hardware revenue is recognized at completion of the installation services. Shipping charges billed to customers are included in hardware sales and the related shipping costs are included in hardware cost of sales. The cost of freight and shipping to the customer is recognized in cost of sales at the time of transfer of control to the customer. System hardware revenues are classified as "Hardware" within our disaggregated revenue.

Installation services

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

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

The aggregate amount of the transaction price allocated to installation service performance obligations that are partially unsatisfied as of March 31, 2022 and 2021 were $301 and $0, respectively.

Software design and development services

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

Software as a service

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

Maintenance and support services

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

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

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

Media Sales

Through the Company's acquisition of Reflect as a result of the Merger, the Company has the capability to assist its customers with designing, deploying and monetizing, through media services their digital advertising networks. This is executed through both subscription agreements to programmatic advertising content and through direct sales media agreements in which the Company sells ads on behalf of its clients to be deployed on those client networks. The Company and its clients operate these agreements on a revenue share basis. Media sales activities are classified as Services revenues.

NOTE 5: BUSINESS COMBINATION

On November 12, 2021, the Company and Reflect entered into an Agreement and Plan of Merger (as amended on as amended on February 8, 2022, the "Merger Agreement") pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, or "Merger Sub," would merge with and into Reflect, with Reflect surviving as a wholly owned subsidiary of Creative Realities, and the surviving company of the merger, which transaction is referred to herein as the "Merger." On February 17, 2022, the parties consummated the Merger.

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

Subject to the terms and conditions of the Merger Agreement, upon the closing of the Merger, Reflect stockholders as of the effective time of the Merger collectively received from the Company, in the aggregate, the following Merger consideration: (i) $16,166 payable in cash, (ii) 2,333,334 shares of common stock of Creative Realities (valued based on an issuance price of $2 per share) (the "CREX Shares"), (iii) the Secured Promissory Note (as described below), and (iv) supplemental cash payments (the "Guaranteed Consideration"), if any, payable on or after the three-year anniversary of the effective time of the Merger (subject to the Extension Option described below, the "Guarantee Date"), in an amount by which the value of the CREX Shares on such anniversary is less than $6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than $7.20 per share (such applicable amount, the "Guaranteed Price"), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below), subject to the terms of the Merger Agreement.

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

Retention Bonus Plan

On February 17, 2022, in connection with the closing of the Merger, the Company adopted a Retention Bonus Plan, pursuant to which the Company is required to pay to key members of Reflect's management team an aggregate of $1,333 in cash, which was paid 50% at the closing of the Merger (the "Closing"), and subject to continuous employment with Reflect or Creative Realities, 25% on the one-year anniversary of Closing and 25% on the two-year anniversary of the Closing. The future cash payments due on the one-year and two-year anniversaries of the Closing have been deposited into an escrow agreement. The Retention Bonus Plan also requires the Company to issue Common Stock having an aggregate value of $667 to the plan participants as follows: 50% of the value of such shares were issued at the Closing, and subject to continuous employment with Reflect or Creative Realities, 25% of the value of such shares will be issued on the one-year anniversary of Closing and the remaining 25% of the value of such shares will be issued on the two-year anniversary of the Closing. The shares issued on the Closing were valued at $2.00 per share, and the shares to be issued after the Closing will be determined based on dividing the value of shares issuable on such date divided by the trailing 10-day volume weighted average price (VWAP) of the shares as of such date as reported on the Nasdaq Capital Market.

Upon the resignation of a participant's employment for "good reason," or termination of the employment of a participant without "cause," each as defined in the Retention Bonus Plan, the participant will be fully vested and will receive all cash and shares allocated to such participant under the Retention Bonus Plan. Any amounts unpaid by reason of a lapse in continuous employment or otherwise will be reallocated among the remaining Retention Bonus Plan participants.

Secured Promissory Note

On February 17, 2022, pursuant to the terms of the Merger, the Company issued to Stockholders' Representative a $2,500 Note and Security Agreement (the "Secured Promissory Note").

The Secured Promissory Note accrues interest at 0.59% (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of $104 on the fifteenth (15th) day of each month, commencing on March 15, 2022. Any remaining or unpaid principal shall be due and payable on February 17, 2023. All payments under the Secured Promissory Note will be paid to the escrow agent in the Merger Agreement to be placed into the escrow account to secure the Reflect stockholders' indemnification obligations until released on the one-year anniversary of the closing of the Merger, at which time any remaining proceeds not subject to a pending indemnification claim will be paid to the exchange agent for payment to the Reflect Stockholders. The obligations of the Company and Reflect set forth in the Secured Promissory Note are secured by a first-lien security interest in various contracts of Reflect, together with all accounts arising under such contracts, supporting obligations related to the accounts arising under such contracts, all related books and records, and products and proceeds of the foregoing. Slipstream subordinated its security interest in such collateral, and the recourse for any breach of the Secured Promissory Note by the Company or Reflect will be against such collateral.

The preliminary purchase price of Reflect consisted of the following items:

(in thousands)	**Consideration**
Cash consideration for Reflect stock	$ 16,664(1)
Cash consideration for Retention Bonus Plan	1,333(2)
Common stock issued to Reflect shareholders	4,667(3)
Common stock issued to Retention Bonus Plan	333(4)
Secured Promissory Note	2,500(5)
Earnout liability	5,600(6)
Total consideration	31,097
Cash acquired	(813)(7)
Net consideration transferred	$ 30,284

(1) Cash consideration for outstanding shares of Reflect capital stock per Merger Agreement.

(2) Cash consideration utilized to fund the Retention Bonus Plan per Merger Agreement.

(3) Company common stock issued in exchange for outstanding shares of Reflect capital stock per Merger Agreement.

(4) Company common stock issued to fund the Retention Bonus Plan per Merger Agreement.

(5) The Secured Promissory Note accrues interest at 0.59% (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of $104 on the fifteenth (15th) day of each month, commencing on March 15, 2022. Any remaining or unpaid principal shall be due and payable on February 17, 2023.

(6) Represents an estimate of the fair value of the Guaranteed Consideration as of the Merger, which, if any, is payable on or after the three-year anniversary of the effective time of the Merger (subject to the Extension Option), in an amount by which the value of the CREX Shares on such anniversary is less than $6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than $7.20 per share (such applicable amount, the "Guaranteed Price"), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option), subject to the terms of the Merger Agreement.

(7) Represents the Reflect cash balance acquired at Closing.

The Company incurred $391 of direct transaction costs for the three months ended March 31, 2022. These costs are included in deal and transaction expense in the accompanying Condensed Consolidated Statement of Operations.

The Company accounted for the Merger using the acquisition method of accounting. The preliminary allocation of the purchase price is based on estimates of the fair value of assets acquired and liabilities assumed as of February 17, 2022. The Company is continuing to obtain information to determine the acquired assets and liabilities, including tax assets, liabilities and other attributes. The components of the preliminary purchase price allocation are as follows:

(in thousands)	**Total**
Accounts receivable	$ 1,823
Inventory	196
Prepaid expenses & other current assets	1,484
Property and equipment	96
Operating right of use assets	493
Deferred tax assets, net of valuation allowance	-
Other assets	36
Identified intangible assets:	
Definite-lived trade names	4,000
Definite-lived Developed technology	12,000
Definite-lived Customer relationships	5,000
Definite-lived Noncompete agreements	500
Goodwill	8,487
Accounts payable	(104)
Accrued expenses	(314)
Customer deposits	(1,661)
Deferred revenues	(1,259)
Current maturities of operating leases	(277)
Long-term obligations under operating leases	(216)
Net consideration transferred	$ 30,284

The Company has engaged a third party valuation specialist to assist in the identification and calculation of the fair value of those separately identifiable intangible assets. The valuation procedures are not complete as of the time of this filing and, as such, preliminary valuations have been assigned based on internal financial models, cash projects, and historic retention information. The Company anticipates adjusting the values of these intangible assets, if any change is identified, through a measurement period to goodwill. Any adjustments to amortization expense will be recorded as an adjustment to the second quarter amortization expense.

The Company anticipates completing the following valuation approaches by asset:

- Customer relationship asset will be estimated using the income approach through a discounted cash flow analysis wherein the cash flows will be based on estimates used to price the Merger. Discount rates applied will be benchmarked with reference to the implied rate of return from the Company's pricing model and the weighted average cost of capital.

- Trade name asset represents the "Reflect" brand name as marketed primarily as a full services digital software solution, marketed in numerous verticals with the exception of food service. The Company will apply the income approach through an excess earnings analysis to determine the fair value of the trade name asset. The Company will apply the income approach through a relief-from-royalty analysis to determine the fair value of this asset.

- The developed technology assets are primarily comprised of know-how and functionality embedded in Reflect's proprietary content management applications, which drive currently marketed products and services. The Company will apply the income approach through a relief-from-royalty analysis to determine the preliminary fair value of this asset.

The Company is amortizing the identifiable intangible assets on a straight-line basis over the weighted average lives ranging from 5 to 10 years as outlined below.

The table below sets forth the preliminary valuation and amortization period of identifiable intangible assets:

(in thousands)	Preliminary Valuation	Amortization Period
Identifiable definite-lived intangible assets:		
Trade names	$ 4,000	5 years
Developed technology	12,000	7 years
Noncompete	500	2 years
Customer relationships	5,000	10 years
Total	$ 21,500	

The Company estimated the preliminary fair value of the acquired property, plant and equipment using a combination of the cost and market approaches, depending on the component. The preliminary fair value of such property, plant and equipment is $96.

The excess of the purchase price over the preliminary estimated fair value of the tangible net assets and identifiable intangible assets acquired was recorded as goodwill and is subject to change upon final valuation. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Merger. These benefits include a comprehensive portfolio of iconic customer brands, complementary product offerings, enhanced national footprint, and attractive synergy opportunities and value creation. None of the goodwill is expected to be deductible for income tax purposes.

The following unaudited pro forma information presents the combined financial results for the Company and Reflect as if the Merger had been completed at the beginning of the Company's prior year, January 1, 2021.

(in thousands, except earnings per common share)	2021
Net sales	$ 30,680
Net income/(loss)	$ 799
Earnings per common share	$ 0.06

The information above does not include the pro forma adjustments that would be required under Regulation S-X for pro forma financial information and does not reflect future events that may occur after December 31, 2021 or any operating efficiencies or inefficiencies that may result from the Merger and related financings. Therefore, the information is not necessarily indicative of results that would have been achieved had the businesses been combined during the periods presented or the results that the Company will experience going forward.

NOTE 6: FAIR VALUE MEASUREMENT

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

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

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

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

As discussed in Note 5 *Business Combinations*, the calculation of the fair value of the Guaranteed 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.

As discussed in Note 8 *Intangible Assets, Including Goodwill*, the calculation of the weighted average cost of capital and management's forecast of future financial performance utilized within our discounted cash flow model for the impairment of goodwill contains inputs which are unobservable and involve management judgment and are considered Level 3 estimates.

As discussed in Note 9 *Loans Payable*, the Convertible Loan was reported at fair value. This liability is deemed to be a Level 3 valuation. Certain unobservable inputs into the calculation of the fair value of this liability include an estimate of the fair value of the Company at a future date using a discounted cash flow model, discount rate assumptions, and an estimation of the likelihood of conversion of the Convertible Loan. The Convertible Loan was refinanced into the Consolidation Term Loan in February 2022.

As discussed in Note 13 *Warrants*, the calculation of the fair value of the warranty liability contains valuation inputs which are based on observable inputs (other than Level 1 prices) and are considered Level 2 estimates.

NOTE 7: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Three Months Ended March 31,	
	2022	**2021**
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 321	$ -
Income taxes, net	$ -	$ -

NOTE 8: INTANGIBLE ASSETS, INCLUDING GOODWILL

Intangible Assets

Intangible assets consisted of the following at March 31, 2022 and December 31, 2021:

	March 31, 2022		December 31, 2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	$ 16,635	3,930	$ 4,635	3,652
Purchased and developed software	3,725	2,874	3,488	2,713
In-Process internally developed software platform	1,362	-	824	-
Customer relationships	8,960	1,802	3,960	1,692
Non-compete	500	31	-	-
Trademarks and trade names	4,640	740	640	640
	35,822	9,377	13,547	8,697
Accumulated amortization	9,377		8,697	
Net book value of amortizable intangible assets	$ 26,445		$ 4,850	

For the three months ended March 31, 2022, the Company added intangible assets as a result of accounting for the Merger in accordance with ASC 805 *Business Combinations*, as outlined in Note 5: *Business Combinations*. For the three months ended March 31, 2022 and March 31, 2021, amortization of intangible assets charged to operations was $680 and $140, respectively.

Both the intangible assets and the related amortization expense related to the Merger which were recorded during the three months ended March 31, 2022 represent estimates. The Company has engaged a third party valuation specialist to value the separately identifiable intangible assets. Any differences between the values initially recorded for the intangible assets as of the Merger and those as a result of the valuation report will be recorded as a measurement period adjustment through goodwill, including adjusting year-to-date amortization expense as a period expense, if applicable.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is subject to an impairment review at a reporting unit level, on an annual basis as of the end of September of each fiscal year, or when an event occurs, or circumstances change that would indicate potential impairment. Following the Merger, the Company evaluated its reporting units in accordance with ASC 280 *Segment Reporting* and concluded that the Company has only one reporting unit. Therefore, the entire goodwill is allocated to that reporting unit. There were no indicators of impairment as of or during the three months ended March 31, 2022.

NOTE 9: LOANS PAYABLE

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

As of March 31, 2022

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
A	2/17/2022	$ 10,000	2/15/2025	2,500,000	8.0% interest(1)
B	2/17/2022	2,396	2/17/2023	-	0.59% interest (2)
C	2/17/2022	7,185	2/15/2025	2,694,495	10.0% interest(3)
	Total debt, gross	19,581		5,194,495	
	Debt discount	(4,156)			
	Total debt, net	$ 15,425			
	Less current maturities	(2,396)			
	Long term debt	$ 13,029			

As of December 31, 2021

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
D	8/17/2016	$ 4,767	2/17/2025	588,236	8.0% interest(4)
E	12/30/2019	2,418	2/17/2025	-	10.0% interest(4)
	Total debt, gross	7,185		588,236	
	Fair value (B)	(166)			
	Total debt, gross	7,019			
	Debt discount	(144)			
	Total debt, net	$ 6,875			
	Less current maturities	-			
	Long term debt	$ 6,875			

A – Acquisition Loan
B – Reflect Seller Secured Promissory Note
C – Consolidation Term Loan
D – Term Loan with related party
E – Secured Convertible Special Loan Promissory Note, at fair value

(1) 8.0% cash interest per annum through maturity at February 15, 2025.
(2) 0.59% cash interest per annum (the applicable federal rate) through maturity at February 17, 2023.
(3) 10.0% cash interest per annum through maturity at February 15, 2025.
(4) Interest was paid-in-kind (“PIK”) through October 2021, at which point interest became payable in cash at the stated interest rates through maturity.

SBA Paycheck Protection Program Loan

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

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

Secured Promissory Note

On February 17, 2022, in connection with the closing of the Merger, the Company issued to RSI Exit Corporation (“Stockholders’ Representative”), the representative of Reflect stockholders, a $2,500 Note and Security Agreement (the “Secured Promissory Note”).

The Secured Promissory Note accrues interest at 0.59% per annum (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of $104 on the fifteenth (15th) day of each month, commencing on March 15, 2022. Any remaining or unpaid principal shall be due and payable on February 17, 2023. All payments under the Secured Promissory Note will be paid to the escrow agent in the Merger Agreement to be placed into the escrow account to secure the Reflect stockholders’ indemnification obligations until released on the one-year anniversary of the closing of the Merger, at which time any remaining proceeds not subject to a pending indemnification claim will be paid to the exchange agent for payment to the Reflect Stockholders. The Secured Promissory Note is secured by a first-lien security interest in certain contracts of Reflect, including obligations arising out of those certain contracts.. The Company has the right to offset amounts payable under the Secured Promissory Note upon a final, non-appealable decision of a court that entitles the Company or its affiliates to any damages for indemnification under the Merger Agreement, or the Stockholders’ Representative’s agreement in writing to such damages.

Second Amended and Restated Loan and Security Agreement

On February 17, 2022, Creative Realities, Inc. (the “Company”) and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream Communications, LLC (“Slipstream”), pursuant to a Second Amended and Restated Credit and Security Agreement (the “Credit Agreement”). The Borrowers include Reflect Systems, Inc. (“Reflect”), which became a wholly owned subsidiary of the Company as a result of the closing of the Merger on February 17, 2022. The debt facilities continue to be fully secured by all assets of the Borrowers.

The Credit Agreement also provides that the Company’s outstanding loans from Slipstream at December 31, 2021, consisting of its pre-existing $4,767 senior secured term loan and $2,418 secured convertible loan, with an aggregate of $7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a term loan (the “Consolidation Term Loan”). The Consolidation Term Loan has an interest rate of 10.0%, with 75.0% warrant coverage (or 2,694,495 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Consolidation Term Loan (estimated to be $60 per monthly payment). Commencing on September 1, 2023, and on the first day of each month thereafter until the Maturity Date, the Borrowers will make a payment on the Consolidation Term Loan, in an equal monthly installment of principal sufficient to fully amortize the Consolidation Term Loan in eighteen equal installments (estimated to be $399 per monthly installment). The Company assessed the combination of the pre-existing senior secured term loan and secured convertible loan in accordance with ASC 470 *Debt* and determined the transaction should be accounted for as an extinguishment, in part as the Consolidation Term Loan eliminated a substantive conversion feature. In aggregate the Company recorded a loss on extinguishment of $295, primarily associated with the write-off of pre-existing debt discounts.

In addition to refinancing the existing debt with Slipstream, the Company issued to Slipstream a $10,000, 36-month senior secured term loan (the “Acquisition Loan”) resulting in $10,000 in gross proceeds, or $9,950 in net proceeds. The Acquisition Loan matures on February 17, 2025 (the “Maturity Date”)and has an interest rate of 8.0%, with 50.0% warrant coverage (or 2,500,000 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Acquisition Loan (estimated to be $67 per monthly payment). No principal payments on the Acquisition Loan are payable until the Maturity Date.

In connection with the Acquisition Loan and Consolidation Term Loan warrant coverage, the Company issued to Slipstream a warrant to purchase an aggregate of 5,194,495 shares of Company common stock (the "Lender Warrant"). The Lender Warrant has a five-year term, an initial exercise price of $2.00 per share, subject to adjustments in the Lender Warrant, and is not exercisable until August 17, 2022. The warrants were assessed in accordance with ASC 470 and ASC 815 *Derivatives* and were deemed to represent bifurcated derivative instruments that should be recorded as liabilities in the Condensed Consolidated Balance Sheets. The Company performed a Black-Scholes valuation of the warrants as of the issuance date, resulting in a fair value of $0.8129 per warrant. In recording the warrant liability, the Company recorded a debt discount associated with each of the Acquisition and Consolidation Term Loans in an amount of $2,032 and $2,190, respectively. These amounts are being amortized straight-line through interest expense over the life of the loans, resulting in incremental interest expense of $162 during the three months ended March 31, 2022.

In certain circumstances, upon a fundamental transaction of the Company (e.g., a disposal or sale of all or the greater part of the assets or undertaking of the Company, an amalgamation or merger with another company, or implementation of a scheme of arrangement), the holder of the Lender Warrant will have the right to require the Company to repurchase the Lender Warrant at its fair value using a Black Scholes option pricing formula; provided that such holder may not require the Company or its successor entity to repurchase the Lender Warrant for the Black Scholes value in connection with a fundamental transaction that is not approved by the Company's Board of Directors, and therefore not within the Company's control.

Loan and Security Agreement History

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

Prior to the execution of the Credit Agreement, Borrower and Slipstream were parties to a Loan and Security Agreement. On March 7, 2021, On February 28, 2021, January 31, 2021, December 31, 2020, November 30, 2020, and September 29, 2020, the parties entered into several amendments to the Loan and Security Agreement to amend the automatic conversion date of the Special Loan and, later, to eliminate the conversion feature. Each amendment extended the automatic conversion date of the Special Loan. The Company paid no fees in exchange for these extensions, with the exception of the March 7, 2021 extension which resulted in the Company recording of $133 of incremental debt discount, a net gain of $26 via the extinguishment of the Special Loan, and expense of $69 of costs incurred with third parties as a result of extinguishment of the Special Loan, modification of the New Term Loan, and extinguishment of the Disbursed Escrow Loan.

Secured Disbursed Escrow Promissory Note

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

NOTE 10: COMMITMENTS AND CONTINGENCIES

Litigation

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

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

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

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

NOTE 11: RELATED PARTY TRANSACTIONS

We had no related party transactions beyond those financing transactions with Slipstream, a related party, discussed in Note 8 *Loans Payable*.

NOTE 12: 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 March 31, 2022, we reported tax liability of $0. As of March 31, 2022, the net deferred tax assets totaled $0 after valuation allowance, consistent with December 31, 2021.

NOTE 13: WARRANTS

A summary of outstanding warrants is included below:

	Warrants (Equity)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2022	4,103,211	$ 4.48	1.73
Warrants issued	5,851,505	1.535	5.00
Warrants exercised	(5,851,505)	1.535	4.86
Balance March 31, 2022	4,103,211	$ 4.15	1.48

	Warrants (Liability)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2022	-	$ -	-
Warrants issued	13,761,000	1.63	5.00
Warrants expired	-	-	-
Balance March 31, 2022	13,761,000	$ 1.63	4.86

On February 17, 2022, in connection with obtaining a waiver of certain restrictions in investment documents between an investor and the Company in order to consummate the financing contemplated by the Credit Agreement, the Company paid consideration to such investor in the form of a warrant (the “Purchaser Warrant”) to purchase 1,400,000 shares of Company common stock in an at-the-market offering under Nasdaq rules. The number of shares of Company common stock subject to the Purchaser Warrant is equal to the waiver fee ($175) divided by $0.125 per share. The exercise price of the Purchaser Warrant is $1.41 per share, and the Purchaser Warrant is not exercisable until August 17, 2022. The Purchaser Warrant expires five years from the date of issuance. The Company evaluated the Purchaser Warrant and concluded that it does not meet the criteria to be classified within stockholders’ equity. The Purchaser Warrant includes provisions which could result in a different settlement value, for the Purchaser Warrant depending on the registration status of the underlying shares. Because these conditions are not an input into the pricing of a fixed-for-fixed option on the Company’s ordinary shares, the Purchaser Warrant is not considered to be indexed to the Company’s own stock. The Company recorded these warrants as liabilities on the consolidated balance sheets at fair value, with subsequent changes in their respective fair values recognized in the consolidated statements of operations at each reporting date. At the date of issuance, the Company performed a Black-Scholes valuation of the Purchaser Warrant, resulting in a fair value of $0.8656 per warrant. In recording the warrant liability, the Company recorded an expense in the Condensed Consolidated Statement of Operations associated with the issuance of the Purchaser Warrant of $1,211. At March 31, 2022, the Company reassessed the fair value of the Purchase Warrant via Black Scholes valuation methodology and determined that the fair value of the Purchaser Warrant was $0.5815 per warrant, resulting in the Company recording a gain on the fair value of the Purchaser Warrant of $398 in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2022.

On February 3, 2022, the Company, entered into a Securities Purchase Agreement with a purchaser (the "Purchaser"), pursuant to which the Company agreed to issue and sell to the Purchaser, in a private placement priced at-the-market under Nasdaq rules, (i) 1,315,000 shares (the "Shares") of the Company's common stock, par value $0.01 per share (the "Common Stock") and accompanying warrants to purchase an aggregate of 1,315,000 shares of Common Stock, and (ii) pre-funded warrants to purchase up to an aggregate of 5,851,505 shares of Common Stock (the "Pre-Funded Warrants") and accompanying warrants to purchase an aggregate of 5,851,505 shares of Common Stock (collectively, the "Private Placement"). The accompanying warrants to purchase Common Stock are referred to herein collectively as the "Common Stock Warrants." Under the Securities Purchase Agreement, each Share and accompanying warrants to purchase Common Stock were sold together at a combined price of $1.535, and each Pre-Funded Warrant and accompanying warrants to purchase Common Stock were sold together at a combined price of $1.5349, for gross proceeds of approximately $11,000, before deducting placement agent fees and estimated offering expenses payable by the Company. During the three months ended March 31, 2022, each of the Pre-Funded Warrants were exercised. The Common Stock Warrants expire five years from the date of issuance, The Company evaluated the Pre-Funded Warrants and concluded that they met the criteria to be classified within stockholders' equity, with proceeds recorded as common stock and additional paid-in-capital. The Company evaluated the Common Stock Warrant and concluded they do not meet the criteria to be classified within stockholders' equity. The Common Stock Warrant include provisions which could result in a different settlement value, for the Common Stock Warrant depending on the registration status of the underlying shares. Because these conditions are not an input into the pricing of a fixed-for-fixed option on the Company's ordinary shares, the Common Stock Warrant is not considered to be indexed to the Company's own stock. The Company recorded these warrants as liabilities on the consolidated balance sheets at fair value, with subsequent changes in their respective fair values recognized in the consolidated statements of operations at each reporting date. At the date of issuance, the Company performed a Black-Scholes valuation of the warrants, resulting in a fair value of $1.0927 per warrant. At March 31, 2022, the Company reassessed the fair value of these warrants via Black Scholes valuation methodology and determined that the fair value of these warrants was $0.5815 per warrant, resulting in the Company recording a gain on the fair value of these warrants of $3,664 in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2022.

On February 17, 2022, in connection with the restructured Credit Agreement with Slipstream, the Company issued 5,194,495 warrants with an exercise price of $2.00 per share which expire five years from the date of issuance (the "Lender Warrant"). These warrants are not exercisable until 180 days after the issuance date. The common shares underlying these warrants have not yet been registered for resale under the Securities Act of 1933, which provides Slipstream with an option for cashless exercise once the warrant becomes exercisable until such time as such registration occurs. The warrants issued to Slipstream expire five years from the date of issuance. The Company evaluated the Lender Warrant and concluded that it does not meet the criteria to be classified within stockholders' equity. The Lender Warrant includes provisions which could result in a different settlement value, for the Lender Warrant depending on the registration status of the underlying shares. Because these conditions are not an input into the pricing of a fixed-for-fixed option on the Company's ordinary shares, the Lender Warrant is not considered to be indexed to the Company's own stock. The Company recorded these warrants as liabilities on the consolidated balance sheets at fair value, with subsequent changes in their respective fair values recognized in the consolidated statements of operations at each reporting date. At the date of issuance, the Company performed a Black-Scholes valuation of the warrants, resulting in a fair value of $0.8129 per warrant. In recording the warrant liability, the Company recorded an increased in debt discount in the Condensed Consolidated Balance Sheet associated with the issuance of the warrants of $4,223, which is being amortized through interest expense in the Condensed Consolidated Statement of Operations over the life of the Acquisition and Consolidation Term Loans. At March 31, 2022, the Company reassessed the fair value of these warrants via Black Scholes valuation methodology and determined that the fair value of these warrants was $0.5420 per warrant, resulting in the Company recording a gain on the fair value of these warrants of $1,408 in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2022.

As of March 31, 2022, there remained outstanding 597,678 warrants which contain weighted average anti-dilution protection. During the three months ended March 31, 2022, those warrants were subject to a downward adjustment in their strike price following completion of the Company's issuance of common stock and warrants in (1) the Merger, (2) the Debt Offering, and (3) the Equity Offering – each in February 2022. The strike prices prior to adjustment ranged from $5.61 and $5.76 and were adjusted to between $3.41 and $3.48. The remaining weighted-average contractual life of warrants subject to weighted average anti-dilution protection is 0.67 years as of March 31, 2022. The repricing resulted in a reclassification of $31 between retained earnings and additional paid in capital during the three months ended March 31, 2022.

NOTE 14: STOCK-BASED COMPENSATION

A summary of outstanding options is included below:

Time Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.01 - $3.00	1,780,000	8.74	$ 2.59	628,333	$ 3.44
$3.01 - $7.50	184,830	4.10	$ 6.72	176,497	$ 6.69
$7.51+	103,979	3.20	11.55	103,845	$ 11.55
	2,068,675	7.43	$ 3.51	908,675	

Performance Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.01 - $3.00	800,000	8.18	$ 2.53	266,667	$ 2.53
	800,000	8.18	$ 2.53	266,667	

	Time Vesting Options		*Performance Vesting Options*	
Date/Activity	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2021	2,068,809	$ 3.48	800,000	$ 2.53
Granted	-	-	-	-
Exercised	-		-	-
Forfeited or expired	(134)	160.50	-	-
Balance, March 31, 2022	1,813,809	3.48	800,000	$ 2.53

The weighted average remaining contractual life for options exercisable is 7.26 years as of March 31, 2022.

Valuation Information for Stock-Based Compensation

For purposes of determining estimated fair value under FASB ASC 718-10, *Stock Compensation*, the Company computed the estimated fair values of stock options using the Black-Scholes model. On June 1, 2020 the Board of Directors of the Company granted 10-year options to purchase an aggregate of 2,380,000 shares of its common stock to employees of the Company. Of the 2,380,000 options awarded, 1,580,000 vest over 3 years and have an exercise price of $2.53, the market value of the Company's common stock on the grant date. The fair value of the options on the grant date was $1.87 and was determined using the Black-Scholes model.

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

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

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

The exercise price of the foregoing options is $2.53 per share, the closing price of the Company's common stock on the date of issuance. The options were issued from the Company's 2014 Stock Incentive Plan. The fair value of the options on the grant date was $1.87 and was determined using the Black-Scholes model. These values were calculated using the same weighted average assumptions as the time vesting options issued. Performance against the identified revenue and EBITDA targets will be assessed quarterly by the Company in order to determine whether any compensation expense should be recorded.

During the three months ended March 31, 2022, the Company deemed it probable that the Company would achieve both the Revenue and EBITDA targets for Calendar Year 2022 and recorded catch-up compensation expense in the Condensed Consolidated Statement of Operations with respect to these awards of $112 during the three months ended March 31, 2022, specifically related to the Revenue Target. These awards have not yet vested and are subject to actual results for the full fiscal year 2022. Should this target not be achieved, amounts recorded as expense in the Condensed Consolidated Statement of Operations would be reversed. The Company anticipates recording approximately $225 during each subsequent quarter of 2022 related to the Revenue target for Calendar Year 2020 and 2021 portion of these awards. During the three months ended March 31, 2021, the Company deemed it probable that the Company would achieve the EBITDA target for Calendar Year 2021 and recorded catch-up compensation expense in the Consolidated Statement of Operations with respect to these awards of $263 during the three months ended March 31, 2021.

Stock Compensation Expense Information

ASC 718-10, *Stock Compensation*, requires measurement and recognition of compensation expense for all stock-based payments including warrants, stock options, restricted stock grants and stock bonuses based on estimated fair values. Under the Amended and Restated 2006 Equity Incentive Plan, the Company reserved 1,720,000 shares for purchase by the Company's employees and under the Amended and Restated 2006 Non-Employee Director Stock Option Plan the Company reserved 700,000 shares for purchase by the Company's employees. There are 12,001 options outstanding under the 2006 Equity Incentive Plan.

In October 2014, the Company's shareholders approved the 2014 Stock Incentive Plan, under which 7,390,355 shares were reserved for purchase by the Company's employees. In August 2018, a special meeting of shareholders was held in which the shareholders voted to amend the Company's 2014 Stock Incentive Plan to increase the reserve of shares authorized for issuance thereunder, from 7,390,355 shares to 18,000,000 shares. Following a 1-for-30 reverse stock split, the shares authorized for issuance under the Company's 2014 Stock Incentive Plan was reduced to 600,000. On July 10, 2020, the Company's shareholders approved an amendment to the Company's 2014 Stock Incentive Plan to increase the reserve of authorized for issuance thereunder to 6,000,000. There are 2,696, 674 options outstanding under the 2014 Stock Incentive Plan, including those Performance Awards.

Compensation expense recognized for the issuance of stock options, including those options awarded to our Board, for the three months ended March 31, 2022 and 2021 of $646 and $539, respectively, was included in general and administrative expense in the Condensed Consolidated Statement of Operations. Amounts recorded include stock compensation expense for awards granted to directors of the Company in exchange for services at fair value of $82 and $27 for the three months ended March 31, 2022 and 2021, respectively.

As of March 31, 2022, there was approximately $1,420 and $674 of total unrecognized compensation expense related to unvested share-based awards with time vesting and performance vesting criteria, respectively. As of March 31, 2021, there was approximately $2,113 and $1,236 of total unrecognized compensation expense related to unvested share-based awards with time vesting and performance vesting criteria, respectively. Generally, expense related to the time vesting options will be recognized over the next two- and one-half years and will be adjusted for any future forfeitures as they occur. Compensation expense related to performance vesting options will be recognized if it becomes probable that the Company will achieve the identified performance metrics.

NOTE 15: SIGNIFICANT CUSTOMERS/VENDORS

Significant Customers

We had three (3) and two (2) customers that in the aggregate accounted for 62.5% and 41.1% of accounts receivable as of March 31, 2022 and December 31, 2021, respectively.

We had three (3) and two (2) customers that accounted for 70% and 40% of revenue for the three months ended March 31, 2022 and 2021, respectively.

Significant Vendors

We had two (2) and three (3) vendors that accounted for 57.9% and 69.1% of outstanding accounts payable at March 31, 2022 and December 31, 2021, respectively.

NOTE 16: LEASES

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

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

(in thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Finance lease cost		
Amortization of right-of-use assets	$ -	$ 4
Interest	-	-
Operating lease cost	99	84
Total lease cost	$ 99	$ 88
Weighted Average Remaining Lease Term		
Operating leases	2.24 years	3.4 years
Weighted Average Discount Rate		
Operating leases	10.0%	10.0%

The following is a schedule, by years, of maturities of lease liabilities as of March 31, 2022:

(in thousands)	Operating Leases
The remainder of 2022	$ 442
2023	594
2024	85
2025	78
Thereafter	-
Total undiscounted cash flows	1,199
Less imputed interest	$ (126)
Present value of lease liabilities	$ 1,073

Supplemental cash flow information related to leases are as follows:

(in thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 75	$ 90
Operating cash flows from finance leases	-	4
Financing cash flows from finance leases	-	(4)

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

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. 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, 2021 as filed with the Securities and Exchange Commission on March 22, 2022.

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

Overview

Creative Realities, Inc. ("Creative Realities," "we," "us," or 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
- Increased customer/guest engagement
- Improved patient outcomes

Through a combination of organically grown platforms and a series of strategic acquisitions, including our recent acquisition of Reflect Systems, Inc. in February 2022, the Company assist clients 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. Client engagements focus on consultative conversations that ensure the Company's solutions are positioned to help clients achieve their business objectives in the most cost-effective manner possible.

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

- **Breadth of solutions** – 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 clients 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 including thousands of qualified and vetted field technicians available to service clients quickly nationwide. We can meet tight schedules even in exceptionally large deployments and still ensure quality and consistency.
- **In-house creative resources** – We assist clients in repurposing existing content for digital signage experiences or creating new content, an activity for which the Company has won several design awards in recent years. In each instance, our services can be essential in helping clients develop an effective content program.
- **Network scalability and reliability** – Our software as a service ("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 clients.
- **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. AdLogic, our home-grown, content management-agnostic platform, automates this process, allowing network owners to capture more revenue with less expense.
- **Media sales** – Few, if any other digital signage solution providers, can offer their clients media sales as a service. We have in-house media sales expertise to elevate conversations with clients interested in better understanding network monetization. We believe this meaningful differentiation in the sales process provides an additional revenue stream to Creative Realities compared to our competitors.
- **Market sector expertise** – Creative Realities has in-house experts in key market segments such as automotive, retail, quick-serve restaurants (QSR), convenience stores, and Digital Out of Home (DOOH) advertising. Our expertise in these business segments enables our teams to provide meaningful business conversations and offer tailored solutions with prospects and customers to their unique business objectives. These experts build industry relationships and create thought leadership that drives lead flow and new opportunities for our business.

- **Logistics** – Implementing a large digital signage project can be a logistics 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. Creative Realities helps simplify and improve end user support by leveraging our own Network Operations Center ("NOC") in Louisville, Kentucky. The NOC resolves many issues remotely and when field support is required, it can be dispatched 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. Interactive applications and integrations with other data sources will dominate the future. From social media feeds to corporate data stores to Point of Sale ("POS") systems, our proven ability to build scalable applications and integrations is a key advantage clients 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 clients the flexibility they need 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 their teams.

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, as a result of our acquisition of Reflect

- Recurring subscription licensing and support revenue from our digital signage software platforms, which are generally sold via a SaaS model. These include:

  - **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

  - **Reflect 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

- **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.

Recent Developments

Please see Note 1 *Nature of Organization and Operations* to the Company's Condensed Consolidated Financial Statements contained in this report for a description of recent developments of the Company that occurred during the three months ended March 31, 2022.

Our Sources of Revenue

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

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

Our Expenses

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

Critical Accounting Policies and Estimates

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

Results of Operations

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

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

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. We acquired Reflect via the Merger during the three months ended March 31, 2022, on February 17, 2022. As a result, our consolidated financial results for such period include the operations of Reflect for 44 days, between February 17, 2022 and March 31, 2022.

	Three months ended March 31,		Change	
	2022	2021	$	%
Sales	$ 10,757	$ 5,004	$ 5,753	115%
Cost of sales	6,865	2,770	4,095	148%
Gross profit	3,892	2,234	1,658	74%
Sales and marketing expenses	707	335	372	111%
Research and development expenses	241	171	70	41%
General and administrative expenses	2,754	2,109	645	31%
Bad debt expense/(recovery)	106	(512)	618	-121%
Depreciation and amortization expense	707	344	363	106%
Deal and Transaction expenses	391	0	391	100%
Total operating expenses	4,906	2,447	2,459	100%
Operating income/(loss)	(1,014)	(213)	(801)	376%
Other income/(expenses):				
Interest expense	(449)	(249)	(200)	80%
Change in fair value of Special Loan	-	166	(166)	-100%
Gain on settlement of debt	(295)	1,565	(1,860)	-119%
Change in Fair Value of Warrant Liability	5,469	-	5,469	100%
Other income/(expense)	(1,206)	4	(1,210)	-30,250%
Total other income/(expense)	3,519	1,486	2,033	137%
Net income/(loss) before income taxes	2,505	1,273	1,232	97%
Provision from income taxes	(3)	(1)	(2)	-200%
Net income/(loss)	$ 2,502	$ 1,272	1,230	97%

Sales

Revenues were $10,757, representing an increase of $5,753, or 115%, as compared to the same period in 2021 despite a reduction in revenues generated from the sale of our Safe Space Solutions products and services of $894. Revenues generated from our core digital signage products and services increased $6,647, or 133% in 2022 as compared to 2021, despite continued supply chain disruptions related to semiconductor chips delaying the delivery of digital displays and media players to the Company.

The Company acquired Reflect on February 17, 2022, and the Company's consolidated results for the three months ended March 31, 2022 include 44 days of Reflect's operations.

Hardware revenues were $6,459 in 2022, an increase of $3,643, or 129%, as compared to the prior year, driven primarily delivering Phase I of our previously announced a large customer transaction expected to exceed $10,000 in revenues. The Company began providing services and deliverables on the customer transaction in February 2022 and is anticipated to complete the project by the end of the first quarter of 2023, subject to the customer's capacity to receive such products and services. Excluding Safe Space Solutions hardware, which reduced $768 year-over-year, core digital signage hardware sales increased $4,411 million, or 158%.

Services and other revenues were $4,298 in the three months ended March 31,2022, an increase of $2,110, or 96%, with the inclusion of 44 days of Reflect's operations in the Company's consolidated results for such period. Managed services revenue, which includes both software-as-a-service ("SaaS") and help desk technical subscription services, were $2,703 in the three months ended March 31, 2022 as compared to $1,339 in the same period in 2021, with the inclusion of 44 days of Reflect's operations in the Company's consolidated results for such period.

Gross Profit

Gross profit increased by $1,658, or 74% driven by an increase in revenue but offset by a reduction in gross profit margin. Gross profit margin decreased to 36.2% from 44.6% driven by a shift in revenue mix to 60% hardware in the first quarter of 2022 related to a material customer rollout underway. We expect this contraction in gross profit margin to be less severe as we move into the second quarter of 2022 and beyond, with significant pressure in the current quarter driving by a single, large-scale/hardware-heavy deployment.

Sales and Marketing Expenses

Sales and marketing expenses increased by $372, or 111%, driven by the acquisition of Reflect during the three months ended March 31, 2022period. Immediately following the acquisition of Reflect, the Company integrated the sales and marketing functions and does not disaggregate these expenses between the two legacy companies. Following the Merger and through integration activities, the Company has adopted certain tools, technology, and processes – particularly with respect to lead generation and brand marketing – that were minimally invested in historically by the Company. Additionally, the Company engaged an Investor Relations firm and has increased investor relations activities, including conferences and presentations. As a result, we expect the sales and marketing expenses of the Company to continue at the current pace for future periods.

Research and Development Expenses

Research and development expenses increased $70, or 41% in 2022, driven primarily by the acquisition of Reflect. Through the acquisition of Reflect, we acquired a fully staffed, experienced software development team and elected to keep that team in-tact, in full, particularly given employment market conditions with respect to talented software engineers. We have integrated the pre-existing CRI development team with the acquired team and have experienced enhanced speed to market on new feature and functionality development activities from increasing this resource pool. We expect this elevated level of expense to continue into the future as we continue to develop our current and future product set.

General and Administrative Expenses

General and administrative expenses – excluding bad debt expense – increased $645, or 31%, driven by the acquisition of Reflect. While the Company anticipates carrying higher G&A expenses moving forward as a result of the acquisition, the integration activities include several projects (including but not limited to consolidation of CMS tools, cloud hosting environments, IT tools, and rightsizing leases for office space) that we expect will be realized by the end of 2022. Bad debt expense returned to a more normalized rate of $106 during the first quarter of 2022, representing an increase of $618 as compared to the comparable period in 2021 as the result of a bankruptcy recovery in 2021.

Bad Debt

Expenses related to the Company's allowance for bad debts increased by $618, or 121%, in 2022 compared to 2021. This return to expense is the result of standard operations. The prior year included a cash recovery of $555 related to a customer bankruptcy for which the Company previously recorded a reserve.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by $363, or 106%, in 2022 compared to 2021. This was driven by the addition of $21,500 in amortizing intangible assets as a result of the Merger.

Interest Expense, Change in fair value of warrant liability, Other expense

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

During the three months ended March 31, 2022, the Company recorded a gain of $5,469 as the result of assessing the fair value of warrant liabilities associated with the Company's issuance of warrants in its debt and equity offerings completed in February 2022 to finance the Merger. These warrants were initially assessed at fair value through Black Scholes calculation and were subsequently re-assessed at March 31, 2022, resulting in the gain.

Supplemental Operating Results on a Non-GAAP Basis

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

	Quarters Ended				
Quarters ended	**March 31 2022**	**December 31, 2021**	**September 30, 2021**	**June 30 2021**	**March 31, 2021**
GAAP net income (loss)	$ 2,502	$ (1,722)	$ (343)	$ 1,025	$ 1,272
Interest expense:					
Amortization of debt discount	181	29	29	29	72
Other interest, net	268	160	158	153	177
Depreciation/amortization:					
Amortization of intangible assets	680	302	320	317	312
Amortization of finance lease assets	-	-	-	-	4
Amortization of employee share-based awards	469	324	329	329	512
Depreciation of property, equipment	27	27	27	27	28
Income tax expense/(benefit)	3	13	1	7	1
EBITDA	$ 4,130	(867)	$ 521	1,887	2,378
Adjustments					
(Gain)/loss on fair value of debt	-	-	-	-	(166)
(Gain)/loss on fair value of warrant liability	(5,469)	-	-	-	-
(Gain)/loss on settlement of obligations	295	-	(256)	(1,628)	(1,565)
(Gain)/loss on debt waiver consent	1,212	-	-	-	-
Deal and transaction expenses	391	518	-	-	-
Other income	(6)	-	-	-	-
Stock-based compensation – Director grants	82	318	27	27	27
Adjusted EBITDA	$ 635	(31)	$ 292	286	674

Liquidity and Capital Resources

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

We produced net income for the three months ended March 31, 2022 and for the year ended December 31, 2021 and had positive cash flows from operating activities for both periods. As of March 31, 2022, we had cash and cash equivalents of $5,988 and a working capital surplus of $2,288.

Management believes that, based on (i) the execution of the Equity Financing, (ii) the refinancing of our debt as part of the Debt Financing, including extension of the maturity date on our term loans, and (iii) our operational forecast through 2022 following completion of the Merger, that we can continue as a going concern through at least June 30, 2023. However, given our historical net losses and cash used in operating activities, we obtained a continued support letter from Slipstream through May 16, 2023. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

Operating Activities

The cash flows provided by operating activities were $1,201 for the period ended March 31, 2022 as compared to cash flows used in operating activities of $21 for the period ended March 31, 2021. We produced net income of $2,502. Following the Merger, our business has significantly expanded, particularly with respect to managed services revenue. Other than net income, cash provided by operating activities was driven by growth of $1,901 of deferred revenue and $2,292 of accounts payable, partially offset by an expansion of accounts receivable of $3,724.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2022 was $17,969 compared to $115 during the same period in 2021. The use of cash in the current year was driven by (1) completion of the Merger and (2) continued investments in our software platforms. We currently do not have any material commitments for capital expenditures as of March 31, 2022; however, we anticipate continued elevated capital expenditures in excess of historical trends through as a result of the Merger, which included acquisition of a software development team.

Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2022 was $19,873 compared to $1,845 for the same period in 2021. The increase is the result of the Company's completion of the Equity Financing and the Debt Financing (each as described in "Recent Developments" above) in the period to facilitate the Merger, which provided net cash of $10,109 and $9,868, respectively.

Contractual Obligations

We have no material commitments for capital expenditures, and we do not anticipate any significant capital expenditures for the remainder of 2022.

Off-Balance Sheet Arrangements

During the three months ended March 31, 2022, 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 March 31, 2022, and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2022 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 22, 2022. 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

Reflect Financial Statements

On February 17, 2022, Creative Realities, Inc. consummated its acquisition of Reflect Systems, Inc. (“Reflect”). Attached as Exhibit 99.1 to this report are the audited financial statements of Reflect for the years ended December 31, 2021 and 2020.

Earnings Release

On May 16, 2022, the Company issued a press release announcing its financial condition and results of operations for the three months ended March 31, 2022. A copy of the press release is furnished as Exhibit 99.2 and is incorporated by reference into this Item 5 in lieu of separately furnishing such press release under Item 2.02 of Form 8-K. This disclosure, including Exhibit 99.1 hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 6. Exhibits

Exhibit No.	Description
1.1	Placement Agency Agreement dated February 3, 2022 by and between Creative Realities, Inc. and A.G.P./Alliance Global Partners (incorporated by reference to Exhibit 1.1 to the registrant's Current Report on Form 8-K filed February 4, 2022)
2.1	Agreement and Plan of Merger, dated as of November 12, 2021, by and between the registrant, CRI Acquisition Corporation, Reflect Systems, Inc., and RSI Exit Corporation (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on November 15, 2021)
2.2	Amendment to Agreement and Plan of Merger, dated as of February 8, 2022, by and among the registrant, CRI Acquisition Corporation, Reflect Systems, Inc., and RSI Exit Corporation (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed February 9, 2022)
4.1	Form of Pre-Funded Warrant (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed February 4, 2022)
4.2	Form of Common Stock Warrant (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed February 4, 2022)
4.3	Lender Warrant dated February 17, 2022 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed February 18, 2022)
4.4	Purchaser Warrant dated February 17, 2022 (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed February 18, 2022)
10.1	Form of Securities Purchase Agreement dated February 3, 2022 by and between Creative Realities, Inc. and the Investors (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed February 4, 2022)
10.2	Form of Registration Rights Agreement dated February 3, 2022 by and between Creative Realities, Inc. and the Investors (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed February 4, 2022)
10.3	Second Amended and Restated Loan and Security Agreement (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed February 18, 2022)
10.4	$10,000,000 Acquisition Term Note (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed February 18, 2022)
10.5	$7,185,319.06 Consolidation Term Note (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed February 18, 2022)
10.6	Secured Promissory Note (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed February 18, 2022)
10.7	Retention Bonus Plan (incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed February 18, 2022)
10.8	Form of Retention Bonus Plan Agreement (incorporated by reference to Exhibit 10.6 to the registrant's Current Report on Form 8-K filed February 18, 2022)
23.1	Consent of Baker Tilly US, LLP*
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).*
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.*
99.1	Reflect Systems, Inc. 2021 audited financial statements*
99.2	Press release dated May 16, 2022+*
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase*
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)*

* Filed herewith

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

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.

		Creative Realities, Inc.
Date: May 16, 2022	By	/s/ Richard Mills
		Richard Mills
		Chief Executive Officer
	By	/s/ Will Logan
		Will Logan
		Chief Financial Officer

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-262516, 333-239108, 333-238275, and 333-255001 on Form S-3, Nos. 333-225876 and 333-209847 on Form S-1, No. 333-261048 on Form S-4 and Nos. 333-189318, 333-181999, 333-174861, 333-167454, 333-159927, 333-147458 and 333-145795 on Form S-8 of Creative Realities, Inc. of our report dated May 16, 2022, relating to the financial statements of Reflect Systems, Inc. as of December 31, 2021 and 2020 included in this Quarterly Report on Form 10-Q of Creative Realities, Inc. for the three months ended March 31, 2022.

/s/ Baker Tilly US, LLP

Plano, TX
May 16, 2022

Exhibit 31.1

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 months ended March 31, 2022, 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: May 16, 2022

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

Exhibit 31.2

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 months ended March 31, 2022, 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: May 16, 2022

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

Exhibit 32.1

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 months ended March 31, 2022, 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: May 16, 2022

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

Exhibit 32.2

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 months ended March 31, 2022, 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: May 16, 2022

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

Reflect Systems, Inc.

Financial Statements

December 31, 2021 and 2020

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December 31, 2021 and 2020

Independent Auditors' Report

To the Stockholders and Board of Directors of
Reflect Systems, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Reflect Systems, Inc. (the Company) which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or 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 financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control–related matters that we identified during the audit.

/s/ Baker Tilly US, LLP

Plano, Texas
May 16, 2022

Reflect Systems, Inc.

Balance Sheets

December 31, 2021 and 2020

		2021		2020
Assets				
Current Assets				
Cash and cash equivalents	$	4,098,371	$	2,726,431
Accounts receivable		1,124,513		3,609,113
Work-in-progress		195,139		6,111
Prepaid expenses and other current assets		76,785		169,560
Total current assets		5,494,808		6,511,215
Property and equipment, net		280,135		419,932
Capitalized software development, net		2,665,907		2,944,452
Deferred income tax asset, net		3,274,759		3,105,207
Other assets		35,816		35,816
Total assets	$	11,751,425	$	13,016,622
Liabilities and Stockholders' Deficit				
Current Liabilities				
Accounts payable	$	551,572	$	632,679
Accrued liabilities		262,647		368,578
Contract liabilities		2,028,558		3,069,591
Deferred rent and tenant allowance, current portion		111,848		104,173
Note payable, current portion		500,000		500,000
Total current liabilities		3,454,625		4,675,021
Deferred rent and tenant allowance, net of current portion		119,523		231,371
Note payable, net of current portion		583,333		1,083,333
Total liabilities		4,157,481		5,989,725
Temporary Stockholders' Equity				
Series A preferred stock, $0.001 par value, 3,000,000 shares authorized, issued and outstanding $4,600,200 liquidation preference		2,303,000		2,303,000
Series B preferred stock, $0.001 par value, 2,472,443 shares authorized, issued and outstanding $4,089,421 liquidation preference		2,047,182		2,047,182
Series C preferred stock, $0.001 par value, 10,400,000 shares authorized, 3,727,613 issued and outstanding $6,709,703 liquidation preference		3,358,579		3,358,579
Series C-1 preferred stock, $0.001 par value, 8,000,000 shares authorized, issued and outstanding $12,000,000 liquidation preference		6,008,000		6,008,000
Series D preferred stock, $0.001 par value, 4,000,000 shares authorized, issued and outstanding $4,000,000 liquidation preference		2,004,000		2,004,000
Total temporary stockholders' equity		15,720,761		15,720,761
Stockholders' Deficit				
Common stock, $0.001 par value, 35,000,0000 shares authorized; 6,258,505 issued and outstanding		6,259		6,259
Additional paid-in capital		1,567,119		1,567,119
Accumulated deficit		(9,700,195)		(10,267,242)
Total stockholders' deficit		(8,126,817)		(8,693,864)
Total liabilities and stockholders' deficit	$	11,751,425	$	13,016,622

See notes to financial statements

Reflect Systems, Inc.

Statements of Operations
Years Ended December 31, 2021 and 2020

	2021	2020
Revenues		
Services	$ 10,222,779	$ 10,061,939
Hardware	2,020,252	1,962,971
Total revenue	12,243,031	12,024,910
Cost of Revenues		
Services	3,040,246	2,841,390
Hardware	1,503,957	1,798,893
Total cost of revenues	4,544,203	4,640,283
Gross profit	7,698,828	7,384,627
Operating Expenses		
Salaries and wages	5,521,322	5,825,078
Contract labor and other employee expenses	349,403	239,511
Selling expenses	578,764	549,612
Depreciation	146,518	155,223
Rent expense	352,639	330,731
Other operating expenses	1,273,529	530,131
Total operating expenses	8,222,175	7,630,286
Loss from operations	(523,347)	(245,659)
Other Income (Expense)		
Interest income	642	2,585
Interest expense	(73,439)	(95,852)
Forgiveness on Paycheck Protection Program loan	998,393	1,062,400
Total other income	925,596	969,133
Net income before income tax benefit	402,249	723,474
Income Tax Benefit	164,798	135,887
Net income	$ 567,047	$ 859,361

See notes to financial statements

Reflect Systems, Inc.

Statements of Changes in Stockholders' Deficit
Years Ended December 31, 2021 and 2020

	Common Stock		Additional Paid- In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance, January 1, 2020	6,258,505	$ 6,259	$ 1,555,548	$ (11,126,603)	$ (9,564,796)
Stock-based compensation	-	-	11,571	-	11,571
Net income	-	-	-	859,361	859,361
Balance, December 31, 2020	6,258,505	6,259	1,567,119	(10,267,242)	(8,693,864)
Net income	-	-	-	567,047	567,047
Balance, December 31, 2021	6,258,505	$ 6,259	$ 1,567,119	$ (9,700,195)	$ (8,126,817)

See notes to financial statements

Reflect Systems, Inc.

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Net income	$ 567,047	$ 859,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	146,518	155,223
Capitalized software amortization expense	1,123,446	1,080,154
Forgiveness on Paycheck Protection Program loan	(998,393)	(1,062,400)
Stock-based compensation expense	-	11,571
Deferred income taxes	(169,552)	(153,517)
Changes in operating assets and liabilities:		
Accounts receivable	2,484,600	(446,922)
Work-in-progress	(189,028)	677,439
Prepaid expenses and other current assets	92,775	78,065
Accounts payable	(81,107)	(904,917)
Accrued liabilities	(105,931)	(450,351)
Contract liabilities	(1,041,033)	279,912
Deferred rent and tenant allowance	(104,173)	(96,498)
Net cash provided by operating activities	1,725,169	27,120
Cash Flows From Investing Activities		
Purchases of property and equipment	(6,721)	(8,361)
Software development costs	(844,901)	(1,002,764)
Net cash used in investing activities	(851,622)	(1,011,125)
Cash Flows From Financing Activities		
Proceeds from Paycheck Protection Program loan	998,393	1,062,400
Payments on note payable	(500,000)	(416,667)
Net cash provided by financing activities	498,393	645,733
Net increase (decrease) in cash and cash equivalents	1,371,940	(338,272)
Cash and Cash Equivalents, Beginning	2,726,431	3,064,703
Cash and Cash Equivalents, Ending	$ 4,098,371	$ 2,726,431
Noncash Transaction		
Forgiveness on Paycheck Protection Program loan	$ 998,393	$ 1,062,400
Supplemental Information		
Cash paid for taxes	$ 72,333	$ 14,752
Cash paid for interest	$ 64,225	$ 86,638

See notes to financial statements

1. Organization and Nature of Operations

Reflect Systems, Inc. (the Company) was incorporated under the laws of the State of Delaware on September 7, 2001. The Company began operations on September 11, 2001.

The Company develops, manufactures, licenses, and supports a suite of software products that provide enterprises and retailers the ability to create, manage and distribute bandwidth-intensive applications, including streaming media and digital signage content, across LAN/WAN, internet and satellite-based networks. The Company also provides maintenance, digital media advertising, professional training and product support services as well as resells third-party hardware and internet-based communication and information services.

Effective January 12, 2016, the Company formed a subsidiary, Reflect Acquisition, LLC, a Texas limited liability company. For the years ended December 31, 2021 and 2020, Reflect Acquisition, LLC has had no activity.

2. Significant Accounting Policies

Basis of Presentation

The accompanying audited financial statements for the years ended December 31, 2021 and 2020 have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and a credit agreement. The carrying amounts of these instruments approximate their respective fair values because of their short-term maturities or the underlying terms of these instruments. The estimated fair value of the credit agreement also approximates carrying value because the terms are comparable to similar lending arrangements in the marketplace.

Recent Accounting Pronouncements

During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. During 2018, the FASB also issued ASU No. 2018-01, *Land Easement Practical Expedient*, which permits an entity to elect an optional transition practical expedient to not evaluate land easements that existed or expired before the entity's adoption of Topic 842 and that were not previously accounted for under ASC 840; ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which addresses narrow aspects of the guidance originally issued in ASU No. 2016-02; ASU 2018-11, *Targeted Improvements*, which provides entities with an additional (and optional) transition method whereby an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption and also provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component; and ASU No. 2018-20, *Narrow-Scope Improvements for Lessors*, which addresses sales and other similar taxes collected from lessees, certain lessor costs, and the recognition of variable payments for contracts with lease and nonlease components. During 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*, which deferred the effective date for certain entities and, during 2020, issued ASU No. 2020-05, *Effective Dates for Certain Entities*, which deferred the effective date of ASU No. 2016-02 for those entities that had not yet issued their financial statements at the time of ASU No. 2020-05's issuance. Topic 842 (as amended) is effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently assessing the effect that Topic 842 (as amended) will have on its results of operations, financial position and cash flows.

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments.* ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, November 2019 and March 2020, respectively, the FASB also issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*; ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*; ASU No. 2019-05 *Targeted Transition Relief*; ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*; and ASU No. 2020-03 *Codification Improvements to Financial Instruments*. ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

During December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*. ASU No. 2019-12 simplifies the accounting for income taxes by removing the following exceptions: (a) exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items; (b) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (c) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (d) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The ASU also makes the following amendments to the guidance: (a) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a nonincome-based tax; (b) requiring that an entity evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction; (c) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements, however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority; (d) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date; and (e) and making minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. ASU No. 2019-12 is effective for fiscal years beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early adoption is permitted. The Company is currently assessing the effect that ASU No. 2019-12 will have on its results of operation, financial position and cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. The Company maintains cash deposits with federally insured financial institutions that may, at times, exceed federally insured limits. The Company has not incurred any losses from such accounts, and management considers the risk to be minimal.

Accounts Receivable

Accounts receivable represents the uncollected portion of amounts recorded as revenues or contract liabilities. Management performs periodic analyses to evaluate all outstanding accounts receivable to estimate an allowance for doubtful accounts that may not be collectible, based on the best facts available to management. Management considers historical collection patterns, accounts receivable aging trends and specific identification of disputed invoices in its analyses. After all reasonable attempts to collect a receivable have failed, the receivable is written off against the allowance for doubtful accounts. As of December 31, 2021 and 2020, the Company did not record any bad debt expense. As of December 31, 2021 and 2020, there was no allowance for doubtful accounts.

Property and Equipment

Property and equipment are reported at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Leasehold improvements are amortized using the straight-line method, over the shorter of the estimated useful life of the improvement or the remaining term of the lease. Useful lives of property and equipment is as follows:

	Useful Lives
Computer equipment	3 years
Office furniture and fixtures	5 years

Additions and major repairs or replacements of property and equipment that increase the life of an asset, are capitalized over the asset's estimated remaining useful life. Maintenance, repairs and minor replacements are charged to expense as incurred. Cost and the related accumulated depreciation on assets retired or otherwise disposed of are removed from the accounts, and related gains or losses are included in operating expenses.

Software Development Costs

The Company capitalizes the costs incurred to develop software for internal use during the application development stage. Costs incurred during the preliminary project planning stage, along with post-implementation stages, are expensed as incurred. Capitalized costs are amortized using the straight-line method over the estimated useful life of the developed product, typically five years. Amortization expense is included in cost of revenues in the accompanying statements of operations.

Long-Lived Assets

Long-lived assets, including property and equipment and capitalized software development, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of these assets is generally measured by a comparison of the carrying value of the asset to the estimated future undiscounted cash flows expected to be generated by the related asset. Any impairment is recognized in the period that such determination is made for the amount by which the carrying value exceeds the fair value of the asset. There were no impairment charges recorded for the years ended December 31, 2021 and 2020.

Revenue Recognition

The Company provides customers channel access to a digital product content database and access to tools by which to create, store, manage and distribute their product's digital content for consumers via either Software-as-a-Service (SaaS) or an on-premise software license. The Company also provides software maintenance, digital media advertising, professional training and product support services. Additionally, the Company resells third-party hardware and internet-based communication and information services. The Company accounts for revenue from contracts with customers, which comprises 100 percent of its revenue, through the following steps:

1. Identification of the contract with a customer

2. Identification of the performance obligations in the contract

3. Determination of the transaction price

4. Allocation of the transaction price to the performance obligations in the contract

5. Recognition of revenue when, or as, the Company satisfies a performance obligation

Generally, SaaS and maintenance and support services are invoiced annually or bi-annually in advance of the services being provided to the customer. On-premise software licenses are invoiced upon the delivery of the license to the customer which can occur either upon shipment of the media device containing the software or at the time the download link for the software is transmitted to the customer. Nonrecurring professional services and third-party services are generally invoiced monthly in arrears after services have been provided to the customer. Sales of third-party hardware (which includes digital signage equipment) often requires the customer to prepay all or a portion of the amount due in advance. Upon the delivery of the hardware, the customer is invoiced for the net amount due after application of the advance payment. Invoiced amounts are due between thirty and forty-five days from the invoice date.

The Company's contract consideration is generally variable based on a fixed per item charge applied to a variable quantity of units. Variable consideration received for the Company's services is generally recognized over time in accordance with the "right to invoice" practical expedient and therefore is not subject to revenue constraint evaluation.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or providing services. Revenue is recognized when the Company satisfies its performance obligations under the contract by transferring the promised product or service to its customer.

The Company's contracts generally do not include any material significant financing components.

Performance Obligations

The Company typically satisfies its performance obligations for SaaS, maintenance and support, nonrecurring professional and third-party services over time as the services are provided to the customer and the customer receives and consumes the benefits of the services.

The Company satisfies its performance obligations with respect to the provision of on-premise software licenses and third-party hardware at the point in time when the customer obtains control of the license or hardware upon delivery.

The Company has established a contract liability for payments received in advance of providing SaaS and maintenance and support services, on-premise software licenses and third-party hardware to customers. This is classified as contract liabilities in the accompanying balance sheets.

Practical Expedients

As part of the adoption of Topic 606 on January 1, 2020, the Company has elected the following practical expedients provided for in the standard.

1. The Company has elected to not adjust the promised amount of consideration for the effect of a significant financing component if it expects, at contract inception, that the period between the Company's transfer of a promised good or service to a customer and the customer's payment for that good or service will be one year or less.

2. The Company is excluding from its transaction price all sales and similar taxes collected from its customers.

3. The Company has elected to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

4. The Company has elected to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations.

5. The portfolio approach has been elected, when applicable, by the Company as it expects any effects of adoption would not be materially different in application at the portfolio level compared with the application at an individual contract level.

6. The Company has elected the "right to invoice" expedient which states that for performance obligations satisfied over time, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, the entity may recognize revenue in the amount to which the entity has a right to invoice.

7. The Company has elected not to disclose information about its remaining performance obligations for any contract that has an original expected duration of one year or less.

Disaggregation of Revenue From Contracts With Customers

The following table disaggregates the Company's revenue based on the timing of the transfer of products and services to customers for the years ending December 31 2021 and 2020:

	Year Ended December 31, 2021	
	Amount	**Percentage**
Revenue recognized over time	$ 9,812,563	80.1%
Revenue recognized at a point in time	2,430,468	19.9
Total revenue	$ 12,243,031	100.0%

	Year Ended December 31, 2020	
	Amount	Percentage
Revenue recognized over time	$ 8,858,944	73.7%
Revenue recognized at a point in time	3,165,966	26.3
Total revenue	$ 12,024,910	100.0%

Neither the type of product or service sold nor the location of sale significantly impacts the nature, amount, timing, or uncertainty of revenue and cash flows.

Stock-Based Compensation

Stock options are accounted for using the grant date fair value method. Under this method, stock-based compensation expense is measured by the estimated fair value of the granted stock options at the date of grant, using the Black-Scholes option pricing model, and recognized over the vesting period with a corresponding increase to additional paid-in capital.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Company estimates its income taxes in preparing the financial statements. This process involves estimating the actual current tax exposure together with deferred tax assets and liabilities. The Company has not established a valuation allowance to reserve deferred tax assets, as management believes the recovery of deferred tax assets is more likely than not of being recovered from future taxable income prior to expiration.

The Company accounts for uncertainties in income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained upon examination by the taxing authority. The Company accounts for interest and penalties relating to uncertain tax positions in the current Statement of Operations, if necessary. As of December 31, 2021 and 2020, the Company had no uncertain tax positions.

The Company has adopted ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, and classified all deferred tax assets and liabilities, along with any related valuation allowance, as noncurrent on the balance sheets.

Advertising and Promotion Costs

Advertising and other marketing costs are expensed when incurred and totaled $578,764 and $520,275 for the years ended December 31, 2021 and 2020, respectively. These costs are included in the statements of operations as selling expenses.

Research and Development

Research and development costs, excluding the capitalized software development, are expensed as incurred. For the years ended December 31, 2021 and 2020, research and development expense was $1,128,766 and $1,004,571, respectively.

Concentrations

As of December 31, 2021, four customers represented 39 percent, 26 percent, 14 percent, and 11 percent of the Company's accounts receivable. As of December 31, 2020, one customer represented 74 percent of the Company's accounts receivable. As of December 31, 2021, four vendors represented 36 percent, 17 percent, 17 percent, and 12 percent of the Company's accounts payable. As of December 31, 2020, one vendor represented 78 percent of the Company's accounts payable.

For the year ended December 31, 2021, three customers represented 26 percent, 18 percent and 10 percent of the Company's total revenue. For the year ended December 31, 2020, three customers represented 15 percent, 23 percent and 26 percent of the Company's total revenue. The Company performs ongoing credit evaluations and does not require collateral. It maintains no reserves for potential losses based on the nature of its clients and historical collection patterns.

3. Property and Equipment, Net

Property and equipment consisted of the following at December 31:

	2021	2020
Computer equipment	$ 165,437	$ 296,350
Furniture and fixtures	18,733	18,733
Leasehold improvements	776,633	776,633
	960,803	1,091,716
Less accumulated depreciation	(680,668)	(671,784)
Property and equipment, net	$ 280,135	$ 419,932

Depreciation expense was $146,518 and $155,223 for the years ended December 31, 2021 and 2020, respectively. For the year ended December 31, 2021, the Company wrote-off $137,634 of fully depreciated property and equipment.

4. Software Development Costs, Net

Capitalized software consisted of the following at December 31:

	Useful Life	2021	2020
Capitalized software	5 years	$ 7,290,490	$ 6,445,589
Less accumulated amortization		(4,624,583)	(3,501,137)
Capitalized software development, net		$ 2,665,907	$ 2,944,452

Amortization expense related to software development costs was $1,123,446 and $1,080,154, for the years ended December 31, 2021 and 2020, respectively.

5. Commitments and Contingencies

Operating Leases

The Company leases its headquarters along with additional storage space in Richardson, Texas. In addition, the Company leases certain equipment and furniture under an operating lease agreement. These lease agreements expire on various dates through December 31, 2023. Future minimum lease payments required under the related operating lease agreements as of December 31, 2021 are as follows:

Years ending December 31:		
2022	$	291,650
2023		299,325
Total	$	590,975

Rent expense for the years ended December 31, 2021 and 2020 was $352,639 and $330,731, respectively.

Litigation

The Company may be subject to certain claims and contingent liabilities that arise in the normal course of business. None of these, in the opinion of management, are expected to have a material adverse effect on the Company’s financial position, results of operations, or cash flows.

6. Debt

On February 1, 2019, the Company entered into a $2,000,000 Credit Agreement with a maturity of February 1, 2024. The Credit Agreement requires monthly interest payments beginning on March 1, 2019 and monthly principal payments of $41,667, beginning on March 1, 2020. The loan bears interest at a rate of 5.35 percent per annum. At December 31, 2021 and 2020, the balance on the loan was $1,083,333 and $1,583,333, respectively.

Under the Credit Agreement, the Company also entered into a revolving line of credit with a maximum borrowing of $500,000. The Credit Agreement requires monthly interest payments until its maturity. On August 16, 2021, the Company amended its revolving line of credit extending the maturity to July 15, 2022.

The Credit Agreement bears interest at the Prime Rate as published by the Wall Street Journal (3.25 percent at December 31, 2021 and 2020). As of December 31, 2021 and 2020, there was no outstanding balance on the line of credit.

The Credit Agreement is collateralized by substantially all assets of the Company. The Credit Agreement requires the Company to meet certain financial and nonfinancial covenants. At December 31, 2021, the Company was in compliance with its debt covenants.

Future minimum payments required under the credit agreement as of December 31, 2021 are as follows:

Years ending December 31:		
2022	$	500,000
2023		500,000
2024		83,333
Total	$	1,083,333

7. Paycheck Protection Program Loan

On April 29, 2020, the Company received loan proceeds in the amount of $1,062,400 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25 percent during the covered period. Any unforgiven portion is payable over 2 years at an interest rate of 1 percent with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

If any portion of the Company's PPP loan is not forgiven, the Company will be required to repay that portion, plus interest, with the repayment term beginning at the time the SBA remits the amount forgiven to the Company's lender. On November 13, 2020, the Company received legal forgiveness on the PPP loan proceeds of $1,062,400.

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) was enacted, permitting Second Draw PPP loans. In January 2021, the Company applied for and was approved for a second loan draw (PPP 2) pursuant to the Economic Aid Act, administered by the U.S. Small Business Administration. The Company received $998,393 of loan proceeds with an effective date of January 28, 2021, with a maturity of five years and will bear interest at 1 percent per annum. Under the terms of the PPP 2, loan payments will be deferred for the Company if they apply for loan forgiveness until SBA remits the Company's loan forgiveness amount to the lender. If the Company does not apply for loan forgiveness, payments are deferred seventeen months from the date of PPP 2 issuance. The Company received legal forgiveness of the PPP 2 loan proceeds of $998,393 on July 16, 2021.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

8. Stock-Based Compensation

In 2002, the Company's board of directors established a long-term incentive plan (the Plan), under which options to purchase shares of common stock are made available for grant to qualified consultants, directors, or employees of the Company. The Plan is authorized to issue up to 3,326,087 shares of the Company's common stock. The Plan expired in 2012 after the initial 10-year life; however, the Board of Directors continued to grant Board approved options after the Plan's expiration.

The vesting of the options is determined by the Company as defined in the option agreements and may be immediately vested in whole or over multiple years. The Company recognizes compensation expense for options granted to employees or directors using the straight-line method over the vesting period. All nonvested stock options issued as of the date of the option holder's termination will be forfeited, with the exception of certain nonvested stock options granted to executive management that have special vesting provisions upon involuntary termination or resignation. The special provisions call for the accelerated vesting of a portion of the option shares granted to the employee.

A summary of option activity for the years ended December 31, 2021 and 2020 is as follows:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2020	2,383,000	$ 0.30
Granted	175,000	0.30
Exercised	-	-
Forfeited	(233,000)	0.30
Balance at December 31, 2020	2,325,000	0.30
Granted	491,944	0.30
Exercised	-	-
Forfeited	(152,500)	0.30
Balance at December 31, 2021	2,644,444	$ 0.30

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model. The Company determined that the grant date fair value of the options for year ended December 31, 2021 was insignificant to the financial statements and therefore recorded no compensation expense. The grant date fair value of the options for year ended December 31, 2020 was $0.02 and the Company recorded $11,571 of stock compensation expense. The Black-Scholes option pricing model used the following weighted average assumptions, along with no dividends, for the years ended December, 2021 and 2021:

Method Inputs	**2021**	**2020**
Share price	$ 0.17	$ 0.17
Volatility	50%	50%
Weighted average risk free rate	1.08%-1.64%	0.62%-1.76%
Expected life (years)	6	6

The Company also estimated a forfeiture rate of 14 percent and 15 percent for the years December 31, 2021 and 2020, respectively. The Black-Scholes option-pricing model requires the input of highly subjective assumptions. The Company calculates expected volatility for stock options based upon the volatility of public companies of similar size and industry as the Company believes the expected volatility will approximate historical volatility. The risk-free rate is based on U.S. Treasury rates with a remaining term that approximates the expected life of the option. The Company continues to assess the assumptions and methodologies used to calculate the established fair value of share-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies, which could materially impact the fair value determinations.

Options outstanding and exercisable as of December 31, 2021 are as follows:

	Options Outstanding		
Exercise Price	**Number of Options**	**Weighted-Average Remaining Contractual Life**	**Number of Options Exercisable**
$ 0.30	2,664,494	5.34	2,599,077

Options outstanding and exercisable as of December 31, 2020 are as follows:

	Options Outstanding		
Exercise Price	**Number of Options**	**Weighted-Average Remaining Contractual Life**	**Number of Options Exercisable**
$ 0.30	2,325,000	7.59	2,214,895

9. Income Taxes

The components of the Company's provision for income taxes for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Current income tax expense:		
State income tax expense	$ (4,754)	$ (17,630)
Total current income tax expense	(4,754)	(17,630)
Deferred income tax benefit		
Federal income tax benefit	153,959	125,513
State income tax benefit	15,593	28,004
Total deferred income tax benefit	169,552	153,517
Total income tax benefit	$ 164,798	$ 135,887

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

	2021	2020
Federal statutory rate	21.00%	21.00%
State taxes	-3.34%	-1.26%
True-ups	-7.20%	-8.61%
Permanent differences	-51.43%	-29.91%
Effective tax rate	-40.97%	-18.78%

The tax effects of temporary differences that give rise to significant portions of the deferred taxes for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Deferred tax assets and liabilities:		
Net operating losses	$ 3,285,693	$ 3,195,974
Research credits	510,827	484,005
Deferred rent	50,807	75,046
Deferred payroll tax	20,879	42,513
Other	26,192	25,890
Software development	(585,408)	(658,540)
Property and equipment	(34,231)	(59,681)
Net deferred tax asset	$ 3,274,759	$ 3,105,207

At December 31, 2021 and 2020, the Company had a net operating loss carryforward of $15,436,196 and $15,031,883, respectively. The net operating losses generated in 2017 and earlier are eligible for carryforward for a period of 20 years which will begin expire in 2031. The annual utilization of the net operating losses generated in 2018 and forward, do not have an expiration, but are limited to 80 percent of taxable income in future years.

10. Temporary Stockholders' Equity

All preferred shares are entitled to vote with common stock on an as-converted basis. The Board of Directors as of December 31, 2021 and 2020, had authorized the issuance of 27,872,443 shares in five series of preferred stock, each with a par value of $0.001, as set forth below:

	Shares Authorized	Shares Issued and Outstanding	Par Value	Issuance Price	Non-cumulative Dividend Rate	Liquidation Preference	Conversion Price
Series A	3,000,000	3,000,000	$ 0.001	$ 0.77	$ 0.05	$ 1.53	$ 0.73
Series B	2,472,443	2,472,443	0.001	0.83	0.06	1.65	0.78
Series C	10,400,000	3,727,613	0.001	0.90	0.06	1.80	0.85
Series C-1	8,000,000	8,000,000	0.001	0.75	0.05	1.50	0.72
Series D	4,000,000	4,000,000	0.001	0.50	0.04	1.00	0.50
	27,872,443	21,200,056					

The preferred stock includes an optional holder redemption feature in which the holders can request redemption of the stock to be paid in three equal installments. The redemption amount is based on the original issue price of the preferred stock and is at the option of the majority preferred stockholders upon written request. As this redemption feature does not meet the definition of unconditional obligation to transfer assets and is not certain to occur until the request occurs in the applicable time period, the preferred stock is not considered mandatorily redeemable stock, but is rather contingently redeemable and therefore classified as temporary equity. Accordingly, all preferred stock with a carrying value of $15,720,761 is classified as temporary equity because the Company cannot control whether or not it will settle the redemption of preferred stock in cash or common stock. No redemption requests have been received as of the balance sheet date but subsequent to December 31, 2021, the Company was acquired (Footnote 12). As a result, no changes have been made to the carrying value of the temporary equity as of December 31, 2021 and 2020, respectively.

Each share of preferred stock is convertible into common stock at the option of the holder based on a conversion price as defined in the Fourth Amended and Restated Certification of Incorporation which may be adjusted based on stock dividends, splits, mergers and reorganizations as well as adjusted if there is a future dilutive issuance of common stock at a price lower than the original issue price of the preferred stock. All preferred stock will automatically convert upon public offering of at least five times the original Series D issue price in which net proceeds are at least $35,000,000 or upon an event specified by vote or written consent of the majority stockholders.

In the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the preferred stock are entitled to be paid out of the assets of the corporation available for distribution to its stockholders or out of the consideration payable to the stockholders prior to the payment is made to the holders of common stock. If, however, the assets available for distribution to the holders of preferred stock are not sufficient to permit payment to such stockholders of the full liquidation preference, then all the assets of the Company shall be distributed ratably to the holders of preferred stock as defined in the Fourth Amended and Restated Certificate of Incorporation.

11. Stockholders' Deficit

Common Stock

The Company is authorized to issue 35,000,000 shares of common stock with par value of $0.001 per share. Holders of the common stock are entitled to one vote per share.

12. Subsequent Events

The Company has evaluated all material events and transactions that occurred subsequent to December 31, 2021, the balance sheet date, through Date of Report, the date the financial statements were available to be issued and determined there were no other events or transactions which would impact these financial statements for the year ended December 31, 2021, except as noted below:

On November 12, 2021, the Company and Creative Realities, Inc. (a publicly traded company) entered into an Agreement and Plan of Merger (as amended on February 8, 2022, the Merger Agreement). On February 17, 2022, the parties consummated the Merger. Subject to the terms and conditions of the Merger Agreement, upon the closing of the Merger, Reflect stockholders as of the effective time of the Merger collectively received from the Company, in the aggregate, the following Merger consideration: (i) $16,166,000 payable in cash, (ii) 2,333,334 shares of common stock of Creative Realities, Inc. (valued based on an issuance price of $2 per share) (iii) the secured promissory note (as defined in the Merger Agreement) and (iv) supplemental cash payments, the guaranteed consideration (as defined in the Merger Agreement).

Exhibit 99.2

FOR IMMEDIATE RELEASE

Creative Realities Reports First Quarter 2022 Results

- ***Announces revenue of $10.8 million***
- ***Reaffirms 2022 Revenue Guidance to Exceed $43 Million***

LOUISVILLE, KY – May 16, 2022 – Creative Realities, Inc. ("Creative Realities," "CRI," or the "Company") (NASDAQ: CREX, CREXW), a leading provider of digital signage solutions, announced its financial results for the three months ended March 31, 2022.

Rick Mills, Chief Executive Officer, commented "During the first quarter of 2022, we completed financing activities and closed on our previously announced acquisition of Reflect Systems, Inc. ("Reflect"). Customers spoke immediately, with Creative Realities and Reflect initially winning a $10 million customer project which began in February and will continue deployment through the first quarter of 2023. Despite combined company results which include only 44 days with Reflect in our consolidated results, we produced record revenue of approximately $10.8 million. Our current client base continues to expand, as evidenced by the expansion in our annual recurring run-rate to in excess of $13.5 million per year. Our pipeline for potential new logos and new clients has never been more robust."

Mr. Mills continued, "Our primary focus remains in expanding the number of SaaS devices managed via our digital signage software, in turn increasing the value of our Company through increasing in our annual recurring services revenue. As we grow the software subscription base and continue to integrate Creative Realities and Reflect, we expect to further enhance our operating leverage and improve financial results."

"With the expansion of our SaaS revenue and the momentum within our pipeline, we reiterate our expected target to generate revenue in excess of $43 million during 2022, which would represent an organic growth rate in excess of 40% on a pro forma, combined company basis as compared to 2021. We remain on track to deliver 25% growth in our annual recurring revenue on a pro forma, combined company basis in 2022."

Mr. Mills concluded, "We are proud about the work we have completed thus far, but remain even more engaged and excited about what is to come for Creative Realities. We are positioned to service enterprise customers with our end-to-end offering and to drive profitability through our increased scale."

First Quarter 2022 Financial Overview

All results herein represent the financial results of Creative Realities, Inc. and include financial results for Reflect Systems, Inc. for the period February 17, 2022 – March 31, 2022 during which Reflect operated as a wholly owned subsidiary of Creative Realities following their merger on February 17, 2022.

Key Highlights:

- Revenue growth of $5.8 million, or 115%
- Annual Recurring Revenue run-rate exceeds $13.5 million

Revenue, gross profit, and gross margin:

- Revenues were $10.8 million, representing an increase of $5.8 million, or 115%, as compared to the same period in 2021 despite a reduction in revenues generated from the sale of our Safe Space Solutions products and services of $0.9 million. Revenues generated from our core digital signage products and services increased $6.6 million, or 133% in 2022 as compared to 2021, despite continued supply chain disruptions related to semiconductor chips delaying the delivery of digital displays and media players to the Company.

- CRI acquired Reflect on February 17, 2022, and the Company's consolidated results for the three months ended March 31, 2022 include 44 days of Reflect's operations. Had the companies completed the Merger as of December 31, 2021, the combined company would have revenue in excess of $12 million during the three months ended March 31, 2022.

- Hardware revenues were $6.5 million in 2022, an increase of $3.6 million, or 129%, as compared to the prior year. Services and other revenues were $4.3 million in 2022, an increase of $2.1 million, or 96% with the inclusion of 44 days of Reflect in the consolidated results.

- Managed services revenue, which includes both software-as-a-service ("SaaS") and help desk technical subscription services, were $2.7 million in the three months ended March 31, 2022 as compared to $1.3 million in the same period in 2021, which included $0.8 million contributed by Reflect in the 44 days from February 17 – March 31, 2022. The Company's annual recurring revenue run-rate exceeds $13.5 million as of March 31, 2022.

- Gross profit increased by $1.7 million, or 74% driven by an increase in revenue but offset by a reduction in gross profit margin. Gross profit margin decreased to 36.2% from 44.6% driven by a shift in revenue mix to 60% hardware in the first quarter of 2022 related to a material customer rollout underway. We expect this contraction in gross profit margin to be less severe as we move into the second quarter of 2022 and beyond, with significant pressure in the current quarter driving by a single, large-scale/hardware-heavy deployment.

Operating expenses:

- Sales and marketing expenses increased by $0.4 million, or 111%, from $0.3 million during the three months ended March 31, 2021 to $0.7 million in the three months ended March 31, 2022, driven by the acquisition of Reflect during the period. Immediately following the acquisition of Reflect, the company integrated the sales and marketing functions and does not disaggregate these expenses between the two legacy companies. Through the acquisition and integration activities, the Company has adopted certain tools, technology, and processes – particularly with respect to digital marketing utilized to generate demand and qualified sales leads – that were only minimally invested into by Creative Realities in the past. Additionally, the Company formally engaged an investor relations firm, HaydenIR, and has increased investor relations activities, including conferences and presentations. As a result, we expect the sales and marketing expenses of the combined company to continue at the current pace for future periods.

- Research and development expenses increased $0.1 million, or 41% in 2022, from $0.1 million during the three months ended March 31, 2021 to $0.2 million during the three months ended March 31, 2022, driven primarily by the acquisition of Reflect. Through the acquisition of Reflect, we acquired a fully staffed, experienced software development team and elected to keep these resources intact, in full, particularly given employment market conditions with respect to talented software engineers. We have integrated the pre-existing CRI development team with the acquired team and have experienced speed to market on feature and functionality development activities from enhancing this resource pool. We expect this elevated level of expense to continue into the future as we continue to develop our current and future product set.

- General and administrative expenses – excluding bad debt expense – increased $0.6 million, or 31%, from $2.1 million during the three months ended March 31, 2021 to $2.7 million during the three months ended March 31, 2022, driven by the acquisition of Reflect. While the company anticipates carrying higher general and administrative expenses moving forward as a result of the acquisition of Reflect, the integration activities include several projects that we expect will be realized by the end of 2022. Bad debt expense returned to a more normalized rate of $0.1 million during the three months ended March 31, 2022, representing an increase of $0.6 million as compared to 2021 as the result of a bankruptcy recovery in the same period in 2021. Our general and administrative expenses also include $0.6 million in non-cash stock compensation expenses.

Operating loss, net income, and EBITDA:

- Operating loss was $1.0 million during the three months ended March 31, 2022, inclusive of the following $1.7 million in non-cash charges:
  - Amortization of intangible assets: $0.7 million, with $0.4 million the result of one-half of one quarter of incremental amortization related to intangible assets recorded during the acquisition of Reflect;
  - Deal and transaction costs: $0.4 million in expenses incurred to facilitate the Reflect acquisition and related financing activities; and
  - Non-cash employee & director stock compensation expenses: $0.6 million for both time and performance vesting options.

- Net income was $2.5 million during the three months ended March 31, 2022 including:
  - $5.5 million gain on marking outstanding warrants to fair value;
  - $1.2 million charge related to the issuance of warrants in exchange for a debt waiver;
  - $0.5 million of interest expense, $0.2 million of which represents non-cash amortization of debt discount recorded in conjunction with the issuance of warrants; and
  - $0.3 million loss related to amending our debt facilities.

- EBITDA was $4.1 million in 2022, with Adjusted EBITDA of $0.6 million. Adjusted EBITDA margin was 6% during the period.

Conference Call Details

The Company will host a webinar to review the results and provide additional commentary about the Company's recent performance and the Reflect merger, which is scheduled for Tuesday, May 17, 2022 at 9:00 am Eastern Time.

Prior to the call, participants should register at bit.ly/CRIearnings2022Q1. Once registered, participants can use the weblink provided in the registration email to listen to and view prepared materials via live webcast. An archived edition of the conference call will also be posted on our website at www.cri.com later that same day and will remain available to interested parties via the same link for one year.

About Creative Realities, Inc.

Creative Realities helps clients use place-based digital media to achieve business objectives such as increased revenue, enhanced customer experiences, and improved productivity. The company designs, develops and deploys digital signage experiences for enterprise-level networks, and 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.

With its recent acquisition of Reflect Systems, Inc., a leading provider of digital signage software platforms, the company is poised to extend its product and service offering and accelerate growth in SaaS revenue. While Reflect provided a broad range of digital signage solutions, Reflect's flagship products are the market-leading ReflectView digital signage platform and Reflect AdLogic ad management platform. ReflectView is the industry's most comprehensive, scalable, enterprise-grade digital signage platform, powering enterprise customer networks. Meanwhile, Reflect AdLogic has become the benchmark for digital signage powered ad networks, delivering nearly 50 million ads daily. The acquisition of Reflect also brought to the Company a media sales division with the expertise and relationships to help any digital signage venue owner develop and execute a monetization plan for their network.

The combined company has operations across North America with active installations in more than 10 countries.

Use of Non-GAAP Measures

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

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

For further information, please refer to Creative Realities, Inc.'s filings available online at www.sec.gov, including its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2022.

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, 2021 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 effectively integrate Reflect's business operations, 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, potential litigation, supply chain shortages, and general economic and market conditions impacting demand for our products and services, including those as a result of the COVID-19 pandemic. 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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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	**March 31 2022**	**December 31, 2021**	**September 30, 2021**	**June 30 2021**	**March 31, 2021**
GAAP net income (loss)	$ 2,502	$ (1,722)	$ (343)	$ 1,025	$ 1,272
Interest expense:					
Amortization of debt discount	181	29	29	29	72
Other interest, net	268	160	158	153	177
Depreciation/amortization:					
Amortization of intangible assets	680	302	320	317	312
Amortization of finance lease assets	-	-	-	-	4
Amortization of employee share-based awards	469	324	329	329	512
Depreciation of property, equipment	27	27	27	27	28
Income tax expense/(benefit)	3	13	1	7	1
EBITDA	$ 4,130	(867)	$ 521	1,887	2,378
Adjustments					
(Gain)/loss on fair value of debt	-	-	-	-	(166)
(Gain)/loss on fair value of warrant liability	(5,469)	-	-	-	-
(Gain)/loss on settlement of obligations	295	-	(256)	(1,628)	(1,565)
(Gain)/loss on debt waiver consent	1,212	-	-	-	-
Deal and transaction expenses	391	518	-	-	-
Other income	(6)	-	-	-	-
Stock-based compensation – Director grants	82	318	27	27	27
Adjusted EBITDA	$ 635	(31)	$ 292	286	674