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, 2021

or

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

For the transition period from ___________ to ___________

Commission File Number 001-33169

Creative Realities, Inc.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

Large accelerated filer ☐	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 17, 2021, the registrant had 11,854,475 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, 2021 (unaudited)	December 31, 2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	3,535	1,826
Accounts receivable, net of allowance of $618 and $1,230, respectively	3,806	2,302
Unbilled receivables	22	41
Work-in-process and inventories, net	2,126	2,351
Prepaid expenses and other current assets	663	507
Total current assets	$ 10,152	$ 7,027
Operating lease right-of-use assets	849	931
Property and equipment, net	1,251	1,340
Intangibles, net	3,650	3,790
Goodwill	7,525	7,525
Other assets	6	5
TOTAL ASSETS	$ 23,433	$ 20,618
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Short-term seller note payable	1,637	1,637
Accounts payable	1,547	1,661
Accrued expenses	2,183	2,142
Deferred revenues	1,425	764
Customer deposits	920	770
Current maturities of operating and finance leases	317	359
Total current liabilities	8,029	7,333
Long-term Payroll Protection Program note payable	-	1,552
Long-term related party loans payable, net of $229 and $168 discount, respectively	4,348	4,436
Long-term related party convertible loans payable, at fair value	2,132	2,270
Long-term obligations under operating leases	532	584
Long-term accrued expenses	107	108
TOTAL LIABILITIES	15,148	16,283
SHAREHOLDERS’ EQUITY		
Common stock, $0.01 par value, 200,000 shares authorized; 11,841 and 10,924 shares issued and outstanding, respectively	118	109
Additional paid-in capital	59,381	56,712
Accumulated deficit	(51,214)	(52,486)
Total shareholders’ equity	8,285	4,335
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 23,433	$ 20,618

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,	
	2021	**2020**
Sales		
Hardware	$ 2,816	$ 1,367
Services and other	2,188	2,337
Total sales	5,004	3,704
Cost of sales		
Hardware	1,914	983
Services and other	856	1,114
Total cost of sales	2,770	2,097
Gross profit	2,234	1,607
Operating expenses:		
Sales and marketing	335	427
Research and development	171	313
General and administrative	2,109	2,512
Bad debt (recovery)/expense	(512)	344
Depreciation and amortization	344	366
Goodwill impairment	-	10,646
Total operating expenses	2,447	14,608
Operating loss	(213)	(13,001)
Other income (expenses):		
Interest expense	(249)	(227)
Gain on settlement of obligations	1,565	40
Change in fair value of Special Loan	166	(151)
Other income	4	1
Total other income/(expense)	1,486	(337)
Income/(loss) before income taxes	1,273	(13,338)
Benefit from / (provision for) income taxes	(1)	155
Net income/(loss)	$ 1,272	$ (13,183)
Basic earnings/(loss) per common share	$ 0.11	$ (1.35)
Diluted earnings/(loss) per common share	$ 0.11	$ (1.35)
Weighted average shares outstanding - basic	11,325	9,794
Weighted average shares outstanding - diluted	11,325	9,794

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,	
	2021	**2020**
Operating Activities:		
Net income/(loss)	$ 1,272	$ (13,183)
Adjustments to reconcile net income/(loss) to net cash used in operating activities		
Depreciation and amortization	344	366
Amortization of debt discount	72	85
Stock-based compensation	539	50
Gain on forgiveness of Paycheck Protection Program	(1,552)	-
Change in fair value of Convertible Loan	(166)	151
Deferred tax provision	-	(175)
Allowance for doubtful accounts	6	328
Increase in notes due to in-kind interest	158	47
Loss on goodwill impairment	-	10,646
Gain on settlement of obligations	(13)	(40)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled receivables	(1,491)	1,056
Inventories	225	(335)
Prepaid expenses and other current assets	(156)	(140)
Operating lease right-of-use assets, net	82	129
Other assets	(1)	9
Accounts payable	(101)	193
Deferred revenue	661	681
Accrued expenses	40	(453)
Deposits	150	595
Other liabilities	(90)	(127)
Net cash used in operating activities	(21)	(117)
Investing activities		
Purchases of property and equipment	(3)	(47)
Capitalization of third-party labor for software development	(66)	(124)
Capitalization of internal labor for software development	(46)	(97)
Net cash used in investing activities	(115)	(268)
Financing activities		
Principal payments on finance leases	(4)	(8)
Proceeds from sale of shares via registered direct offering, net	1,849	-
Net cash provided by / (used in) financing activities	1,845	(8)
Increase/(decrease) in Cash and Cash Equivalents	1,709	(393)
Cash and Cash Equivalents, beginning of period	1,826	2,534
Cash and Cash Equivalents, end of period	$ 3,535	$ 2,141

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 capital	Accumulated (Deficit)	Total
	Shares	Amount			
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

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	Amount			
Balance as of December 31, 2019	9,774,546	$ 98	$ 54,052	$ (35,642)	$ 18,508
Stock-based compensation	-	-	19	-	19
Shares issued to directors as compensation	20,425	-	31	-	31
Net loss	-	-	-	(13,183)	(13,183)
Balance as of March 31, 2020	9,794,971	$ 98	$ 54,102	$ (48,825)	$ 5,375

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 ("Allure"), and Creative Realities Canada, Inc., a Canadian corporation. Our other wholly owned subsidiaries, Creative Realities, LLC, a Delaware limited liability company, and ConeXus World Global, LLC, a Kentucky limited liability company, are effectively dormant.

Liquidity and Financial Condition

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

We produced net income for the three months ended March 31, 2021 but incurred a net loss for the year ended December 31, 2020 and have negative cash flows from operating activities for both periods. As of March 31, 2021, we had cash and cash equivalents of $3,535 and a working capital surplus of $2,123.

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.

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

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

Management believes that, based on (i) the forgiveness of our PPP Loan, (ii) the execution of the Offering and remaining availability for incremental offerings under our previously registered Form S-3 (including our current at-the-market offering), (iii) the refinancing of our debt, including extension of the maturity date on our term and convertible loans, as well as access to incremental borrowings under the new multi-advance line of credit, and (iv) our operational forecast through 2022, we can continue as a going concern through at least June 30, 2022. However, given our history of net losses and cash used in operating activities, we obtained a continued support letter from Slipstream through June 30, 2022. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the applicable instructions to Form 10-Q and Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2020, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2021.

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

2. Revenue Recognition

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

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

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

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

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

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

3. Inventories

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

	March 31, 2021	December 31, 2020
Raw materials, net of reserve of $111 and $104, respectively	$ 2,055	$ 1,920
Inventory on consignment with distributors	12	208
Work-in-process	59	223
Total inventories	$ 2,126	$ 2,351

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, 2021 and concluded there were none.

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

5. Basic and Diluted 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 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. Shares reserved for outstanding stock options and warrants totaling 5,035,518 at March 31, 2020 were excluded from the computation of earnings/(loss) per share as all options and warrants were anti-dilutive due to the net loss in the period. 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 have the intent and ability to settle the debt in cash.

6. Income Taxes

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

7. Goodwill

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

8. Use of Estimates

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

9. Leases

We account for leases in accordance with 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. Finance leases are included in property and equipment, net, current maturities of finance leases, and long-term obligations under financing leases on our condensed consolidated balance sheets.

NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently adopted

None.

Not yet adopted

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

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, 2021 and 2020:

(in thousands)	**Three Months Ended March 31, 2021**	**Three Months Ended March 31, 2020**
Hardware	$ 2,816	$ 1,367
Services:		
Installation Services	575	869
Software Development Services	274	142
Managed Services	1,339	1,326
Total Services	2,188	2,337
Total Hardware and Services	$ 5,004	$ 3,704

System hardware sales

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

Installation services

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

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

The aggregate amount of the transaction price allocated to installation service performance obligations that are partially unsatisfied as of March 31, 2021 and 2020 were $0.

Software design and development services

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

Software as a service

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

Maintenance and support services

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

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

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

NOTE 5: FAIR VALUE MEASUREMENT

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

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

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

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

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

As discussed in Note 8 *Loans Payable*, the Convertible Loan is reported at fair value. This liability is deemed to be a Level 3 valuation. Certain unobservable inputs into the calculation of the fair value of this liability include an estimate of the fair value of the Company at a future date using a discounted cash flow model, discount rate assumptions, and an estimation of the likelihood of conversion of the Convertible Loan. As of March 31, 2021, we utilized the assistance of a third-party valuation specialist to assist in updating our fair value analysis of the Special Loan, resulting in recognition of a $166 gain during the period from the change in fair value of the liability and a corresponding increase in the debt balance recorded in the Condensed Consolidated Balance Sheet. The Company recorded a $151 loss during the same period in 2020 related to the fair value of the Special Loan.

NOTE 6: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ -	$ 107
Income taxes, net	$ -	$ 1

NOTE 7: INTANGIBLE ASSETS, INCLUDING GOODWILL

Intangible Assets

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

	March 31, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	$ 4,635	3,463	$ 4,635	3,400
Customer relationships	3,960	1,548	5,330	2,870
Trademarks and trade names	640	574	1,020	925
	9,235	5,585	10,985	7,195
Accumulated amortization	5,585		7,195	
Net book value of amortizable intangible assets	$ 3,650		$ 3,790	

For the three months ended March 31, 2021 and 2020, amortization of intangible assets charged to operations was $140 and $159, respectively. During the three months ended March 31, 2021, the Company wrote-off a $380 fully amortized trade name asset and a $1,370 fully amortized customer list asset and the related accumulated amortization for each related to ConeXus World Global, LLC. There was no impact on the Company's Condensed Consolidated Balance Sheet or Condensed Consolidated Statement of Operations during the period.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is subject to an impairment review at a reporting unit level, on an annual basis as of the end of September of each fiscal year, or when an event occurs, or circumstances change that would indicate potential impairment. The Company has only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit. There were no indicators of impairment as of or during the three months ended March 31, 2021.

Interim Impairment Assessment – March 31, 2020

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

NOTE 8: LOANS PAYABLE

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

As of March 31, 2021

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
G	3/7/2021	4,577	3/31/2023	649,965	8.0% interest(1)
D	11/19/2018	1,637	2/15/2020	-	3.5% interest
H	3/7/2021	2,298	3/31/2023	-	10.0% interest(1)
	Total debt, gross	8,512		649,965	
	Fair value (H)	(166)			
	Total debt, gross	8,346			
	Debt discount	(229)			
	Total debt, net	$ 8,117			
	Less current maturities	(1,637)			
	Long term debt	$ 6,480			

As of December 31, 2020

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

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

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

SBA Paycheck Protection Program Loan

On April 27, 2020, the Company entered into a Promissory Note with Old National Bank (the "Promissory Note"), which provided for an unsecured loan of $1,552 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.

Amended and Restated Loan and Security Agreement

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

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

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

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

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

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

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

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

Loan and Security Agreement History

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

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

Secured Disbursed Escrow Promissory Note

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

Amended and Restated Seller Note from acquisition of Allure

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

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

On February 20, 2020, Creative Realities, Inc. and Allure made a demand for arbitration against Seller for (1) breach of contract, (2) indemnification, and (3) fraudulent misrepresentation under the Allure Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We did not pay the Amended and Restated Seller Note on its maturity date. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. On September 11, 2020, we served a First Amended Demand in the arbitration with Seller, and on November 5, 2020, Seller pre-served a Motion for Summary Disposition in the arbitration demanding payment of the Amended and Restated Seller Note and accrued interest. The Company continued to accrue interest on the Amended and Restated Seller Note and have included $87 in accrued expenses in the Condensed Consolidated Financial Statements as of March 31, 2021.

On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, $100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Amended and Restated Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements. The Company expects to record a gain on settlement of obligations of $1,624 during the three months ended June 30, 2021.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Litigation

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

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

On February 20, 2020, the Company and Allure made a demand for arbitration against Seller for breach of contract, indemnification, and fraudulent misrepresentation under the Allure Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We did not pay the Amended and Restated Seller Note on its maturity date. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. On September 11, 2020, we served a First Amended Demand in the arbitration with Seller, and on November 5, 2020, Seller pre-served a Motion for Summary Disposition in the arbitration demanding payment of the Amended and Restated Seller Note and accrued interest. In December 2020, the parties entered a pre-arbitration mediation process in an effort to settle the litigation. On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, $100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Amended and Restated Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements. The Company expects to record a gain on settlement of obligations of $1,624 during the three months ended June 30, 2021.

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

Settlement of obligations

During the three months ended March 31, 2021 the full principal amount of the PPP Loan and the accrued interest of $1,552 were forgiven and recorded as a gain on settlement.

During the three months ended March 31, 2020, the Company settled and/or wrote off obligations of $59 for aggregate cash payments of $19 and recognized a gain of $40 related to legacy accounts payable deemed to no longer be legal obligations to vendors.

Employee-related Expenses

During the three months ended March 31, 2020, we completed a reduction-in-force and accrued one-time termination benefits related to severance to the affected employees of $135, the total of which was paid during the three months ended June 30, 2020. There were no comparable activities during the three months ended March 31, 2021.

NOTE 10: RELATED PARTY TRANSACTIONS

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

33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees"), is a customer of both equipment and services from the Company. For the three months ended March 31, 2021 and 2020, the Company had sales to 33 Degrees of $111, or 2.2%, and $500, or 13.5%, respectively, of consolidated revenue. Accounts receivable due from 33 Degrees was $13, or 0%, and $40, or 1.2%, of consolidated accounts receivable at March 31, 2021 and December 31, 2020, respectively.

NOTE 11: INCOME TAXES

Our deferred tax assets are primarily related to net federal and state operating loss carryforwards (NOLs). We have substantial NOLs that are limited in usage by IRC Section 382. IRC Section 382 generally imposes an annual limitation on the amount of NOLs that may be used to offset taxable income when a corporation has undergone significant changes in stock ownership within a statutory testing period. We have performed a preliminary analysis of the annual NOL carryforwards and limitations that are available to be used against taxable income. Based on the history of losses of the Company, there continues to be a full valuation allowance against the net deferred tax assets of the Company with a definite life.

For the three months ended March 31, 2021, we reported tax liability of $0. As of March 31, 2021, the net deferred tax assets totaled $0 after valuation allowance, consistent with December 31, 2020.

NOTE 12: WARRANTS

A summary of outstanding equity warrants is included below:

	Warrants (Equity)		
	Amount	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**
Balance January 1, 2021	4,426,900	$ 4.62	2.83
Warrants issued	-	-	-
Warrants expired	(8,334)	5.77	-
Balance March 31, 2021	4,418,566	$ 4.58	2.33

NOTE 13: STOCK-BASED COMPENSATION

A summary of outstanding options is included below:

Time Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.01 - $3.00	1,525,000	9.17	$ 2.52	8,333	$ 1.88
$3.01 - $7.50	184,830	5.10	$ 6.72	168,163	$ 6.64
$7.51+	103,979	4.20	11.74	99,187	$ 11.89
	1,813,809	8.47	$ 3.48	275,683	

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	9.18	$ 2.53	-	$ -
	800,000	9.18	$ 2.53	-	

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

The weighted average remaining contractual life for options exercisable is 4.9 years as of March 31, 2021.

Valuation Information for Stock-Based Compensation

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

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

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

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

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

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

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

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

During the three months ended March 31, 2021, the Company deemed it probable that the Company would achieve the EBITDA target for Calendar Year 2021 and recorded catch-up compensation expense in the Consolidated Statement of Operations with respect to these awards of $263 during the three months ended March 31, 2021. These awards have not yet vested and are subject to actual results for the full fiscal year 2021. Should this target not be achieved, amounts recorded as expense in the Condensed Consolidated Statement of Operations would be reversed. The Company anticipates recording approximately $79 during each subsequent quarter of 2021 related to the EBITDA target for Calendar Year 2020 and 2021 portion of these awards. During the three months ended March 31, 2020, the Company recorded no compensation expense in the Consolidated Statement of Operations with respect to these awards.

Stock Compensation Expense Information

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

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

Compensation expense recognized for the issuance of stock options, including those options awarded to our Chairman of the Board, for the three months ended March 31, 2021 and 2020 of $539 and $50, 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 $27 and $34 for the three months ended March 31, 2021 and 2020, 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. As of March 31, 2020, there was approximately $155 and $0 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 14: SIGNIFICANT CUSTOMERS/VENDORS

Significant Customers

We had two (2) and two (2) customers that in the aggregate accounted for 41.6% and 42.6% of accounts receivable as of March 31, 2021 and December 31, 2020, respectively.

We had two (2) and three (3) customers that accounted for 40% and 40% of revenue for the three months ended March 31, 2021 and 2020, respectively, of which 33 Degrees represented 2.2% and 13.6% for the same periods, respectively.

Significant Vendors

We had three (3) and two (2) vendors that accounted for 48% and 47% of outstanding accounts payable at March 31, 2021 and December 31, 2020, respectively.

NOTE 15: LEASES

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

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

(in thousands)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Finance lease cost		
Amortization of right-of-use assets	$ 4	$ 7
Interest	-	1
Operating lease cost	84	172
Total lease cost	$ 88	$ 180
Weighted Average Remaining Lease Term		
Operating leases	3.4 years	3.2 years
Finance leases	N/A	1.1 years
Weighted Average Discount Rate		
Operating leases	10.0%	10.0%
Finance leases	N/A	13.8%

The following is a schedule, by years, of maturities of lease liabilities as of March 31, 2021:

(in thousands)	Operating Leases
The remainder of 2021	$ 263
2022	294
2023	291
2024	81
Thereafter	74
Total undiscounted cash flows	1,003
Less imputed interest	$ (144)
Present value of lease liabilities	$ 859

Supplemental cash flow information related to leases are as follows:

(in thousands)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 90	$ 170
Operating cash flows from finance leases	4	1
Financing cash flows from finance leases	(4)	7

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, 2020 as filed with the Securities and Exchange Commission on March 10, 2021.

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

Overview

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

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

We generate revenue in our business by:

- consulting with our customers to determine the technologies and solutions required to achieve their specific goals, strategies and objectives;

- designing our customers' digital marketing experiences, content and interfaces;

- engineering the systems architecture delivering the digital marketing experiences we design – both software and hardware – and integrating those systems into a customized, reliable and effective digital marketing experience;

- managing the efficient, timely and cost-effective deployment of our digital marketing technology solutions for our customers;

- delivering and updating the content of our digital marketing technology solutions using a suite of advanced media, content and network management software products; and

- maintaining our customers' digital marketing technology solutions by: providing content production and related services; creating additional software-based features and functionality; hosting the solutions; monitoring solution service levels; and responding to and/or managing remote or onsite field service maintenance, troubleshooting and support calls.

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

Recent Developments

COVID-19 Pandemic

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

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

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

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

Semiconductor Chip Shortage

The Company's suppliers of digital displays, the primary hardware component in the Company's digital systems, have informed the Company that, due to component shortages in the industry, such suppliers expect delays and potentially increased costs for the Company to obtain digital displays necessary to fulfil and install the Company's digital solutions. Historically, such digital displays have been readily available for purchase and delivery, to be purchased by the Company from distributors from such distributor's existing inventory. Such delays will likely result in a longer sales cycles and prolonged periods in which the Company will be able to recognize revenues compared to historical time periods. The increased costs for such displays may also reduce the margins in which the Company has received on account of the purchase and installation of such displays as part the Company's digital signage product offerings. Although we believe that such shortage will be alleviated in the future, the Company is not aware of how long such delays may exist, the effect such delays and increased demand may have on the cost to procure such digital screens, or the adverse impacts on our financial results.

Safe Space Solutions

On April 28, 2020, we announced the joint launch of an AI-integrated non-contact temperature inspection kiosk known as the Thermal Mirror with our partner, InReality, LLC ("InReality"), for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. Although we have experience in providing customers digital integration solutions, our launch of the Thermal Mirror involves the development, marketing and sale of a new product to new customers involving a joint effort with InReality. The product also uses hardware and technologies that have not been used with our other customers. Throughout the course of the remainder of 2020 and thus far through 2021, the Company and InReality have continued to develop incremental use cases and have launched a suite of Safe Space Solutions products addressing this market, each of which operate consistently with our primary business model in that they represent a sale of hardware and a SaaS-based subscription license services contract. During the three months ended March 31, 2021, the Company generated revenue of $1,019 from of our Safe Space Solutions products and services (inclusive of the portion of revenue recognized during the three months ended March 31, 2021 related to annual contracts sold in prior periods). There was no revenue related to these products and services during the three months ended March 31, 2020.

Although these products and our launch have been successful, the Company retains some level of risk related to the ultimate recovery of our initial investment into the inventory acquired to launch and support these products.

Registered Direct Offering

On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor which provided for the issuance and sale by the Company of 800,000 shares of the Company's common stock, in a registered direct offering at a purchase price of $2.50 per share, for gross proceeds of $2,000. See Note 1 *Nature of Organization* to the Condensed Consolidated Financial Statements for additional details with respect to the transaction and related accounting.

Amended and Restated Credit Agreement

On March 7, 2021, the Company refinanced their current debt facilities with Slipstream, pursuant to the Credit Agreement. See Note 8 *Loans Payable* to the Condensed Consolidated Financial Statements for additional details with respect to the transaction and related accounting.

Our Sources of Revenue

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

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

Our Expenses

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

Critical Accounting Policies and Estimates

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

Results of Operations

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

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

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

	For the three months ended March 31,		Change	
	2021	**2020**	**Dollars**	**%**
Sales	$ 5,004	$ 3,704	$ 1,300	35%
Cost of sales	2,770	2,097	673	32%
Gross profit	2,234	1,607	627	39%
Sales and marketing expenses	335	427	(92)	-22%
Research and development expenses	171	313	(142)	-45%
General and administrative expenses	2,109	2,512	(403)	-16%
Bad debt (recovery)/expense	(512)	344	(856)	-249%
Depreciation and amortization expense	344	366	(22)	-6%
Loss on goodwill impairment	-	10,646	(10,646)	100%
Total operating expenses	2,447	14,608	(12,161)	-83%
Operating income/(loss)	(213)	(13,001)	12,788	-98%
Other income/(expenses):				
Interest expense	(249)	(227)	(22)	10%
Change in fair value of Convertible Loan	166	(151)	317	-210%
Gain on settlement of obligations	1,565	40	1,525	3813%
Other income/(expense)	4	1	3	300%
Total other income/(expense)	1,486	(337)	1,823	-541%
Net income/(loss) before income taxes	1,273	(13,338)	14,611	-110%
Income tax (expense)/benefit	(1)	155	(156)	-101%
Net income/(loss)	$ 1,272	$ (13,183)	$ 14,455	-110%

Sales

Sales increased by $1,300, or 35%, in the three months ended March 31, 2021 as compared to the same period in 2020, driven by sales of $1,019 during the three months ended March 31, 2021 of our Safe Space Solutions products and services (inclusive of the portion of revenue recognized during the three months ended March 31, 2021 related to annual contracts sold in prior periods), which launched in April 2020. There were no sales of Safe Space Solutions in the corresponding prior period. During the three months ended March 31, 2021, the expansion of a relationship with a pre-existing customer added approximately $1,162 as compared to the same period in 2020, partially offset by lower installation revenues in the period due to continued closures in certain market verticals, including movie theaters and sports venues.

Gross Profit

Gross profit increased $627, or 39%, from $1,607 during the three months ended March 31, 2020 to $2,234 for the three months ended March 31, 2021. Of the increase, $564, or 90% of the increase, was directly attributable to the increase in sales period over period, with the remaining increase the result of gross margin percent period-over-period to 44.6% from 43.4% as a result of increase in recurring revenues as a percent of total revenue.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses decreased by $92, or 22%, in 2021 compared to 2020. The decrease was a result of reduced personnel costs, combined with reduced spend on trade show activity and related travel costs following the cancellation of several key industry events as a result of COVID-19. We anticipate our sales personnel will maintain a reduced level of travel costs as compared to 2019 during the extended pandemic period and utilize virtual meeting technology more commonly moving forward, but that these costs will increase as compared to 2020 during the second half of 2021.

Research and Development Expenses

Research and development expenses decreased by $142, or 45%, in 2021 compared to 2020 as the result of a reduction in personnel costs during the period and a reallocation of certain internal resources away from research and development activities into revenue generating services and support activities.

General and Administrative Expenses

Total general and administrative expenses decreased by $403, or 16%, exclusive of the effects of bad debt expenses during the three months ended March 31, 2021 as compared to the same period in the prior year because of reductions of (a) $552 in personnel costs, including salaries, benefits, and travel-related expenses, and (b) $117 in rent expense following closure, downsizing, or restructuring of four leases during 2020, partially offset by an increase in stock compensation amortization expense of $233 related to incremental employee and directors' awards granted during 2020 which are being amortized over a nineteen (19) month remaining vesting period based on the grant date fair value calculated using the Black Scholes method. Personnel costs were reduced following completion of a reduction-in-force and salary reductions for remaining personnel in March 2020.

Bad Debt

Expenses related to the Company's allowance for bad debts decreased by $856, or 249%, in 2021 compared to 2020. This decrease was primarily driven by a cash recovery of $555 related to a customer bankruptcy for which the Company previously recorded a reserve during the three months ended June 30, 2020.

Depreciation and Amortization Expenses

Depreciation and amortization expenses decreased by $22, or 6%, in 2021 compared to 2020. This decrease was the result of a trade name asset becoming fully amortized during 2020 and having no amortization recorded during the three months ended March 31, 2021.

Goodwill impairment

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

Interest Expense

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

Change in fair value of convertible loans

As of March 31, 2021, we utilized the assistance of a third-party valuation specialist to assist in updating our fair value analysis of the Convertible Loan, resulting in recognition of a $166 gain during the period from the change in fair value of the liability. We recognized a $151 loss related to the Convertible Loan during the three months ended March 31, 2020.

Summary Unaudited Quarterly Financial Information

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

	Quarters Ended				
Quarters ended	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**	**June 30, 2020**	**March 31, 2020**
Net sales	$ 5,004	$ 4,990	$ 5,107	$ 3,656	$ 3,704
Cost of sales	2,770	2,737	2,663	1,839	2,097
Gross profit	2,234	2,253	2,444	1,817	1,607
Operating expenses, excluding depreciation and amortization	2,103	2,886	2,489	3,081	3,596
Goodwill impairment	-	-	-	-	10,646
Loss on lease termination	-	18	-	-	-
Depreciation/amortization	344	351	377	380	366
Operating income (loss)	(213)	(1,002)	(422)	(1,644)	(13,001)
Other expenses/(income)	(1,486)	(379)	164	811	337
Income tax expense/(benefit)	1	(6)	(1)	4	(155)
Net income (loss)	1,272	$ (617)	$ (585)	(2,459)	(13,183)

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	March 31 2021	December 31, 2020	September 30, 2020	June 30 2020	March 31, 2020
	Quarters Ended				
GAAP net income (loss)	$ 1,272	$ (617)	$ (585)	$ (2,459)	$ (13,183)
Interest expense:					
Amortization of debt discount	72	85	85	84	85
Other interest, net	177	186	179	176	142
Depreciation/amortization:					
Amortization of intangible assets	140	139	161	158	159
Amortization of finance lease assets	4	3	5	5	7
Amortization of share-based awards	512	250	248	100	19
Depreciation of property, equipment & software	200	209	212	216	200
Income tax expense/(benefit)	1	(6)	(1)	4	(155)
EBITDA	$ 2,378	249	$ 304	$ (1,716)	$ (12,726)
Adjustments					
Change in fair value of Special Loan	(166)	(609)	-	551	151
Gain on settlement of obligations	(1,565)	(54)	(114)	(1)	(40)
Loss on disposal of assets	-	-	13	-	-
Loss on lease termination	-	18	-	-	-
Loss on goodwill impairment	-	-	-	-	10,646
Stock-based compensation – Director grants	27	27	25	19	31
Adjusted EBITDA	$ 674	(369)	$ 228	$ (1,147)	$ (1,939)

Liquidity and Capital Resources

We produced net income for the three months ended March 31, 2021 but incurred a net loss for the year ended December 31, 2020 and have negative cash flows from operating activities for both periods. As of March 31, 2021, we had cash and cash equivalents of $3,535 and a working capital surplus of $2,123.

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.

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

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

Management believes that, based on (i) the forgiveness of our PPP Loan, (ii) the execution of a registered direct offering and remaining availability for incremental offerings under our previously registered Form S-3, (iii) the refinancing of our debt, including extension of the maturity date on our term and convertible loans, as well as access to incremental borrowings under the new multi-advance line of credit, and (iv) our operational forecast through 2022, we can continue as a going concern through at least June 30, 2022. However, given our history of net losses and cash used in operating activities, we obtained a continued support letter from Slipstream through June 30, 2022. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

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

The Company's suppliers of digital screens have informed the Company that, due to component shortages in the industry, such suppliers expect delays and increased costs for the Company to obtain digital screens necessary to fulfil and install the Company's digital solutions. Historically, such digital screens have been readily available for purchase and delivery, to be purchased by the Company from distributors from such distributor's existing inventory. Such delays will likely result in a longer sales cycles and prolonged periods in which the Company will be able to recognize revenues compared to historical time periods. The increased costs for such screens may also reduce the margins in which the Company has received on account of the purchase and installation of such screens as part the Company's digital signage product offerings. Although we believe that such shortage will be alleviated in the future, the Company is not aware of how long such delays may exist, the effect such delays and increased demand may have on the cost to procure such digital screens, or the adverse impacts on our financial results.

Operating Activities

The cash flows used in operating activities were $21 and $117 for the period ended March 31, 2021 and March 31, 2020, respectively. We produced net income of income of $1,272 which was offset via addback of the gain on forgiveness of the Company's PPP Loan in the amount of $1,552. Cash flows from operating activities were driven by increases of $661 and $225 in deferred revenues and inventories, respectively, offset by an increase of $1,491 in accounts receivable due in part to the settlement of a customer bankruptcy during the reporting period.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2021 was $115 compared to $268 during the same period in 2020. The use of cash in both periods represents payments made for capital assets, primarily related to the capitalization of both internal and external software development. We currently do not have any material commitments for capital expenditures as of March 31, 2021, nor do we anticipate capital expenditures in excess of our historical trends throughout the balance of the year.

Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2021 was $1,845 compared to net cash used in financing activities of $8 for the same period in 2020. On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor for the issuance and sale of the Company's common stock. The net proceeds from the Offering after paying estimated offering expenses were approximately $1,849.

Contractual Obligations

We have no material commitments for capital expenditures, and we do not anticipate any significant capital expenditures for the remainder of 2021.

Off-Balance Sheet Arrangements

During the three months ended March 31, 2021, we did not engage in any off-balance sheet arrangements set forth in Item 303(a) (4) of Regulation S-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2021, and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

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

A global shortage of semiconductor chips utilized in digital displays is adversely impacting the Company’s ability to procure hardware to sell and support its digital solutions, and it is unknown how long such shortage will occur.

There is currently a worldwide shortage of semiconductor chips and the Company’s suppliers of digital displays, the primary hardware component in the Company’s digital systems, have informed the Company that, due to component shortages in the industry, such suppliers expect delays and potentially increased costs for the Company to obtain digital displays necessary to fulfil and install the Company’s digital solutions. Historically, such digital displays have been readily available for purchase and delivery, to be purchased by the Company from distributors from such distributor’s existing inventory. Such delays will likely result in a longer sales cycles and prolonged periods in which the Company will be able to recognize revenues compared to historical time periods. The increased costs for such displays may also reduce the margins in which the Company has received on account of the purchase and installation of such displays as part the Company’s digital signage product offerings. Although we believe that such shortage will be alleviated in the future, the Company is not aware of how long such delays may exist, the effect such delays and increased demand may have on the cost to procure such digital screens, or the adverse impacts on our financial results.

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

As previously reported in prior filings with the SEC, on February 20, 2020, Creative Realities, Inc. and Allure made a demand for arbitration against Christie Digital Systems, Inc. (“Seller”) for (1) breach of contract, (2) indemnification, and (3) fraudulent misrepresentation under the Stock Purchase Agreement dated September 20, 2018. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We did not pay the Amended and Restated Seller Note on its maturity date. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment.

On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, $100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements. The Company expects to record a gain on settlement of obligations of $1,624 during the three months ended June 30, 2021.

Item 6. Exhibits

Exhibit No.	Description
10.1	Amended and Restated Loan and Security Agreement by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K filed March 10, 2021)
10.2	Securities Purchase Agreement dated February 18, 2021 by and between Creative Realities, Inc. and purchaser identified on the signature page thereto (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on February 19, 2021)
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
99.1	Press release dated May 17, 2021
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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 17, 2021	By	/s/ Richard Mills Richard Mills Chief Executive Officer
	By	/s/ Will Logan Will Logan Chief Financial Officer

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, 2021, of Creative Realities, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 17, 2021

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, 2021, of Creative Realities, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 17, 2021

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, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: May 17, 2021

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, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Will Logan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: May 17, 2021

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

EXHIBIT 99.1

FOR IMMEDIATE RELEASE

Creative Realities Reports First Quarter 2021 Results

LOUISVILLE, KY – May 17, 2021 – Creative Realities, Inc. ("Creative Realities," "CRI," or the "Company") (NASDAQ: CREX, CREXW), a leading provider of digital marketing solutions, announced its financial results for the first quarter ended March 31, 2021.

Rick Mills, Chief Executive Officer, commented "During the first quarter of 2021, CRI generated approximately $5.0 million of revenue and effectively achieved breakeven operating results, which are in-line with the expectations we communicated in our most recent earnings call. We generated net income during the period of $1.3 million and, consistent with the third and fourth quarter of 2020, we generated both positive EBITDA and Adjusted EBITDA, highlighting our continued focus on cost control and revenue-generating activities."

"During the quarter, CRI undertook and achieved significant capital activities, including achieving forgiveness of our PPP Loan, completion of a registered direct offering, and a refinancing of all outstanding debt facilities. These activities provide the foundation and runway for the Company's continued investment in customer acquisition and an expected return to growth in the second half of 2021. We continue to expect that the second half of 2021 will present opportunities for CRI as a result of strengthening the Company's market perception and competitive position during the COVID-19 pandemic, and through improvement of our balance sheet through activities executed in the first quarter of 2021."

First Quarter Financial Update

Revenue, gross profit, and gross margin:

- Revenues were $5.0 million for the three months ended March 31, 2021, an increase of $1.3 million, or 35%, as compared to the same period in 2020.
- Hardware revenues were $2.8 million for the three months ended March 31, 2021, an increase of $1.4 million, or 106%, as compared to the prior year, driven by (i) Thermal Mirror and other Safe Space Solutions products, which generated approximately $0.8 million in hardware sales during the three months ended March 31, 2021 and (ii) increasing sales to a previously announced expanding customer partnership, which is undergoing conversion of its network during the first and second quarter of 2021. Gross margin on hardware revenue was 32.0% during 2021 as compared to 28.1% during the same period in 2020 due to the shift in mix of hardware revenues from displays to the Thermal Mirror and other Safe Space Solutions products, which typically generate higher gross profit on a per unit basis compared to our digital solutions products.
- Services and other revenues were $2.2 million for the three months ended March 31, 2021, a decrease of $0.1 million, or 6.8%, as compared to the same period in 2020. Current year installation services decreased by $0.3 million as a result of suspended, delayed, and cancelled customer projects, initiatives, and customer capital expenditures following announcement of the COVID-19 pandemic, partially offset by an increase of $0.1 million in software development services in the current year.
- Managed services revenue, which includes both software-as-a-service ("SaaS") and help desk technical subscription services for our traditional digital signage and recent Thermal Mirror and Safe Space Solutions product offerings, were $1.3 million for the three months ended March 31, 2021 and 2020 as reductions in digital signage subscription revenue related to contracts with customers which were partially or permanently closed during the year as a result of the COVID-19 pandemic were replaced with subscription revenues added through our Safe Space Solutions products and services.
- Gross profit was $2.2 million for the three months ended March 31, 2021, an increase of $0.6 million, or 39%, compared to the same period in 2020, approximately half of which relates to an increase in revenue period-over-period with half driven by higher gross profit generated on sales of the Thermal Mirror and Safe Space products.

Operating expenses:

- For the three months ended March 31, 2021 as compared to the same period in the prior year:
  - Sales and marketing expenses decreased by $0.1 million, or 22% while research and development expenses decreased by $0.1 million, or 45%, each driven by a reduction in employee-related expenses as a result of a combination of headcount reductions, salary reductions implemented for retained personnel, and a reduction in travel-related expenses in the current year including the elimination of participation in industry trade shows.
  - General and administrative expenses decreased by $0.4 million during the three months ended March 31, 2021, or 16% compared to the same period in 2020, driven by reduced headcount, salary reductions, and the exit and/or restructuring of several of the Company's operating leases for real estate following the start of the COVID-19 pandemic. During the three months ended March 31, 2021, general and administrative includes an increase of $0.3 million in compensation expenses related to the probable vesting of performance restricted awards. Exclusive of this incremental non-cash compensation expense, general and administrative expenses decreased by $0.7 million, or 26%, as compared to the three months ended March 31, 2020.

Operating loss, net loss, and EBITDA:

- Operating loss was $0.2 million for the three months ended March 31, 2021 as compared to an operating loss of $12.2 million during the same period in 2020. The reduction in operating loss was driven by (i) a reduction in cash-based operating expenses of approximately $0.9 million, and (ii) non-recurrence of a non-cash goodwill impairment loss of $10.6 million recorded during the three months ended March 31, 2020, partially offset by (i) a reduction of $0.9 million in bad debt expense during the three months ended March 31, 2021 as the result of a recovery from a previously bad-debt reserved customer bankruptcy, and (ii) an increase of $0.3 million in non-cash share-based compensation expenses as a result of probable vesting of performance-based option awards.
- Net income was $1.3 million for the three months ended March 31, 2021 as compared to net loss of $13.2 million for the same period in 2020. In addition to those operating items previously identified, the increase was driven by increases of (1) $0.3 million in the fair value of debt instruments, and (ii) $1.5 million related to gains on settlement of obligations, including specifically forgiveness of the Company's PPP loan during the three months ended March 31, 2021.
- EBITDA was $2.4 million for the three months ended March 31, 2021 as compared to an EBITDA loss of $12.7 million the same period in 2020. Adjusted EBITDA was $0.7 million for the three months ended March 31, 2021, compared to an Adjusted EBITDA loss of $1.9 million for the same period in 2020. See below for a description of these non-GAAP financial measures and reconciliation to our net loss.

Other material transactions during the three months ended March 31, 2021:

- Paycheck Protection Program Loan ("PPP Loan"): On January 11, 2021, the Company received notice that the full principal amount of the PPP Loan and the accrued interest had been forgiven. The Company recognized a gain of approximately $1.5 million during the three months ended March 31, 2021 as a result of the forgiveness.
- Registered Direct Offering: On February 18, 2021, the Company entered into a securities purchase agreement with an institutional investor in which the Company sold800,000 shares of the Company's common stock (the "Shares") in a registered direct offering (the "Offering") at a purchase price of $2.50 per Share, for gross proceeds of $2.0 million. The net proceeds from the Offering after paying estimated offering expenses were approximately $1.8 million, which the Company intends to use for general corporate purposes.
- Debt Refinancing: On March 7, 2021, the Company refinanced its debt facilities, which:
  - extended maturity dates on all outstanding secured credit facilities to March 31, 2023;
  - provided an additional $1.0 million of availability under a line of credit;
  - removed the three-times liquidation preference of the Company's special convertible term loan; and
  - extinguished the outstanding obligations owed with respect to a $0.2 million existing disbursed escrow loan in exchange for shares of the Company's common stock valued at $2.718 per share (the trailing 10-day VWAP as reported on the Nasdaq Capital Market as of the date of execution of the Credit Agreement).

The Company expensed approximately $0.1 million in expenses related to the refinancing activity and recorded additional debt discount of approximately $0.1 million which will be amortized through interest expense over the remaining life of the loan.

Subsequent events:

- Seller Note: On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, $100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Amended and Restated Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements. The Company expects to record a gain on settlement of obligations of approximately $1.6 million during the three months ended June 30, 2021.

Mr. Mills concluded, “We continue to build the foundation to prepare the Company for long-term success and are excited by recent customer developments. While we remain bullish on the long-term prospects for both the industry and the Company, there remain short-term challenges including the timing of reopening of our customers throughout the United States, and the current chip shortages and production delays, which will potentially impact our ability to procure and timely deliver customer solutions. We believe any impact as a result of these developments will result in a shift in timing of revenue, as opposed to a loss of revenue, however we continue to monitor the situation closely with our manufacturing partners. Despite potential short-term supply challenges, we continue to believe that our end-to-end offering has positioned us well within the industry to compete for new and growing opportunities with partners, particularly potential enterprise customers in a variety of key verticals.”

Conference Call Details

The Company will host a webinar to review the results and provide additional commentary about the Company’s recent performance, which is scheduled for Tuesday, May 18, 2021 at 9:00 am Eastern Time.

Prior to the call, participants should register at https://bit.ly/criearnings2021Q1. 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, Inc. (“CRI” or the “Company”) helps clients use the latest omnichannel technologies to inspire better customer experiences. CRI designs, develops and deploys consumer experiences for high-end enterprise level networks, and is actively providing recurring SaaS and support services across more than fifteen diverse vertical markets, including Automotive, Advertising Networks, Apparel & Accessories, Convenience Stores, Foodservice/QSR, Gaming, Theater, and Stadium Venues. The Company operates primarily throughout North America and has active contracts in more than 10 countries.

Use of Non-GAAP Measures

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

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

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

Cautionary Note on Forward-Looking Statements

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

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

Contact

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https://investors.cri.com/

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

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

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

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

	Quarters Ended				
Quarters ended	**March 31 2021**	**December 31, 2020**	**September 30, 2020**	**June 30 2020**	**March 31, 2020**
GAAP net income (loss)	$ 1,272	$ (617)	$ (585)	$ (2,459)	$ (13,183)
Interest expense:					
Amortization of debt discount	72	85	85	84	85
Other interest, net	177	186	179	176	142
Depreciation/amortization:					
Amortization of intangible assets	140	139	161	158	159
Amortization of finance lease assets	4	3	5	5	7
Amortization of share-based awards	512	250	248	100	19
Depreciation of property, equipment & software	200	209	212	216	200
Income tax expense/(benefit)	1	(6)	(1)	4	(155)
EBITDA	$ 2,378	249	$ 304	$ (1,716)	$ (12,726)
Adjustments					
Change in fair value of Special Loan	(166)	(609)	-	551	151
Gain on settlement of obligations	(1,565)	(54)	(114)	(1)	(40)
Loss on disposal of assets	-	-	13	-	-
Loss on lease termination	-	18	-	-	-
Loss on goodwill impairment	-	-	-	-	10,646
Stock-based compensation – Director grants	27	27	25	19	31
Adjusted EBITDA	$ 674	(369)	$ 228	$ (1,147)	$ (1,939)